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FINANCIAL TIMES

Europe's Business Newspaper

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Volvo postpones meeting on Renault merger

Volvo, the Swedish manufacturer, postponed next week's planned shareholders meeting on the proposed merger of its car and truck operations with France's Renault for one month following intensive criticism of the deal in Sweden. It said it was seeking "further clarification" of the French government's plans to privatise Renault, a key focus of Swedish opposition to the merger.

McDonnell Douglas, US aerospace group, reported record third-quarter earnings of \$142m, underscoring a year-long financial recovery, helped by a large cost-cutting programme. It also forecast it would top Wall Street's expectations for the full year, despite the sharp downturn in US defence spending and a recession in the civil aviation industry. Page 21

Ulster peace plan offers The British government promised to table a comprehensive peace plan for Northern Ireland if the province's four non-violent political parties agree to a fresh round of peace talks. Page 20

Japanese investors paid in kind Japanese companies forced to cut dividends as earnings are hit by the country's prolonged economic slowdown are starting to compensate shareholders with produce instead. Page 20

Bradford & Bingley, the UK's seventh largest building society, has become the first non-German institution to be given permission to set up a Bausparkasse, the German equivalent of a building society. Page 21; Lex, Page 20

Capital Cities, which owns the ABC television network, has offered to buy from its shareholders up to about 12 per cent of its existing common stock which will cost the cash-rich group between \$1.18bn and \$1.26bn. Page 21

Dinkins struggles against challenger

Rudolph Giuliani, (left), the Republican-Liberal candidate, remains the slight favourite to oust David Dinkins, the Democrat, as mayor of New York today. In the most eye-catching of dozens of election polls across the US, the latest polls put the two men on a virtual dead heat, but this may understate the extent of support for Giuliani, the former federal prosecutor. Four years ago, Dinkins beat Giuliani by only 2 per cent. Page 5

Japanese new car sales decline The severity of the downturn in Japan's car market was underlined by October figures for October, which showed that sales of new cars were down 11.3 per cent on October last year. Page 4

Iva, Italy's state steel company, has decided to split its activities into three, marking an important step in the state's withdrawal from loss-making steel production. Page 2

Norway may cut oilfield tax breaks Norway is considering reducing tax concessions to oil companies that retain high levels of debt, in an effort to stabilise government revenues from the North Sea. Page 3

Three die in Halloween ambush Two gunmen ambushed a group of 13 and 14-year-olds walking home from a Halloween party in Pasadena, California, killing three boys and wounding three others in a motiveless attack.

Space shuttle sets record Space shuttle Columbia landed in California with seven astronauts and a cargo of laboratory rats, after a 14-day mission that set a US flight endurance record for the longest of all 58 shuttle missions.

New newspaper for Hong Kong The publisher of Hong Kong's biggest Chinese daily, Oriental Press Group, confirmed it is setting up an English-language paper to challenge the dominant South China Morning Post. The Eastern Express will be launched in January.

UK schoolboys on murder charge The trial opened of two 11-year-old boys charged with murdering two-year-old James Bulger in Liverpool, northern England. The court heard they attacked James with bricks, stones and a piece of metal before laying his body on a railway track, where it was hit by a train and cut in two.

Four feared dead in Corsican storms Ten people were missing and four feared dead in flash floods which struck the Mediterranean island of Corsica. Weather, Page 20

US Supreme Court to sit on unitary tax system

By George Graham
In Washington

THE US Supreme Court placed the Clinton administration in a painful quandary yesterday by announcing that it was going to review the constitutionality of California's unitary tax system - which taxes multinational corporations on the basis of their worldwide income.

The nine-member court said it would review both the case brought by Barclays Bank of the UK, questioning California's right to apply the unitary system to foreign-owned companies, and a parallel case brought by Colgate-Palmolive, raising similar issues in relation to US-owned businesses.

Together, the two cases may affect about \$4m in tax revenues that California has either collected or assessed.

Fulfilling a campaign pledge, President Bill Clinton reversed the policy of the last three administrations by backing California's argument that the case should not be heard. The administration is extremely anxious that California, politically crucial and virtually bankrupt, should not lose the \$4m at stake.

At the same time, the Clinton administration is unwilling to stand forthrightly against its foreign partners - especially the UK - who have unrelentingly criticised unitary taxation as contrary to the internationally accepted

arm's length system.

In a brief filed with the Supreme Court last month, the US solicitor-general argued that although the decision by the California Supreme Court upholding the unitary system was "subject to serious question", there was no practical need for a review because of changes California made last month to its tax law to meet foreign objections.

The unitary method assesses tax on a proportion of a group's worldwide income, whereas the arm's length system taxes only the revenues of the companies doing business in the state.

Yesterday's announcement surprised many legal experts and appeared to shift the odds of victory strongly in Barclays' favour, but Mr Jerome Libin, a lawyer representing the UK government in the case, cautioned against any such prediction.

"It only takes four votes to grant a petition for review and it takes five votes to win," he said.

Mr Brad Sherman, a member of the California franchise tax board who was active in promoting the changes to the unitary tax system, said he was disappointed by the Supreme Court's decision. "We thought we had a good chance to close this can of worms. The can remains open," he said.

In reviewing the Barclays and

Continued on Page 20



Palestinians demonstrators fly the flag in Jerusalem. Israeli reaction to the recent peace accord will be tested in local elections today. Page 4

Talks mark end of four-year ban on high-level military contacts US builds bridges to Beijing

By Alexander Nicoll, Asia Editor,
in London

A SENIOR US defence department official is in Beijing for talks which mark the end of Washington's four-year ban on high-level military contacts and are the latest sign of a revitalisation of its policy towards China.

The discussions being held by Mr Charles Freeman, assistant secretary of defence for regional security affairs, with the People's Liberation Army follow separate visits to Beijing in recent weeks by Mr Mike Espy, the agriculture secretary, and senior State Department and trade officials.

Also indicating an improvement in relations, Mr Li Peng, China's premier, said in remarks

published yesterday that this month's meeting in Seattle between President Bill Clinton and Mr Jiang Zemin, China's president, "is a good thing and is of great significance".

Officials of both sides have, however, been careful not to raise hopes that significant Sino-US agreements could be reached in Seattle.

The recent visits by US officials to Beijing represent an attempt by Mr Clinton to broaden the relationship between the two countries, which has been tense and restricted since the 1989 killings in Tiananmen Square. Recently relations have been further clouded by heightened US pressure on China over human rights and weapons sales.

The new US strategy is to maintain insistence on improvement in these areas but also engage China in a much broader range of discussions so that the issues in dispute cease to dominate the bilateral relationship.

"We are now embarked on a policy of re-engaging," a US official said. "We are no longer denying ourselves the possibility of talking to the Chinese at the level necessary."

The hope is that a broader dialogue would make it easier for the US to explain where it found Chinese policies to be objectionable and to obtain changes acceptable to China.

However, US officials are in no doubt that Mr Clinton may revoke China's most favoured

nation trading status next year if progress is not seen.

Mr Warren Christopher, secretary of state, told businessmen recently: "I don't believe we can sustain the position for MFN for beyond next June unless we see some improvement in the human rights field by the Chinese, as well as reform in connection with trade practices and progress in the non-proliferation front."

He made clear that Washington wanted changes soon rather than at the last minute before Mr Clinton's decision next year.

China dismisses US linkage of human rights and trade as a relic of the cold war and has called for greater US-China contacts.

China's economy, Page 19

UK chancellor wins agreement on spending cuts

By James Blitz, Political Staff,
in London

MR KENNETH CLARKE, the British chancellor of the exchequer, won a victory yesterday in the run-up to his first budget on November 30 by persuading fellow cabinet ministers in Mr John Major's government to cut departmental spending and freeze public expenditure for next year.

In an unexpected announcement, a spokesman for the prime minister's office said ministers had concluded nearly all the details of this year's departmental spending round in a series of meetings with Treasury officials in recent days.

The formal announcement of the spending totals agreed for each department will come in Mr Clarke's unified budget, which will also deal with revenue proposals.

The success in freezing expenditure at present levels will please right-wingers in the ruling Conservative party by reducing the pressure to increase revenues through tax increases.

However, members of Parliament assumed that there would still be cuts in defence spending, the most contentious area in the public-spending round, although these would not now be as large as military chiefs had first feared.

Officials at the prime minis-

ter's official residence in Downing Street and the Treasury confirmed that the proposed spending total of £263.6bn (£83bn) for next year had been met. A special session of the cabinet due to discuss public spending today has been cancelled. The final details of the spending plan will be finalised on Thursday at a "routine" session of the cabinet which should avoid the tough debate that had been expected.

"There has been sufficient progress to ensure that decisions about spending programme totals can be taken at cabinet on Thursday in the normal way," the Downing Street spokesman said, adding, "We are nearly there."

The biggest source of tension in recent weeks has been the level of defence spending for the next three years.

Treasury officials had threatened to cut defence spending by about £1bn in each of the next three years, but Mr Malcolm Rifkind, the defence secretary, warned last week that any attempt to make more than token cuts in the £23bn defence budget risked provoking a full defence review. A group of 14 Conservative backbenchers had also threatened to vote against large cuts in defence spending. The agreement on defence expenditure followed a meeting between

the prime minister and defence chiefs last Wednesday. Some Conservative backbenchers were still insisting yesterday that they would revolt against any cuts in defence spending which amounted to more than £1.3bn in

Continued on Page 20

STOCK MARKET INDICES			
FT-SE 100	3184.4	(-0.6)	
Yield	3.72		
FT-SE Eurostoxx 100	1375.21	(+0.7)	
FT-A All-Share	1982.18	(-0.25)	
Nikkei	10,438.24	(-204.73)	
New York headline	2677.80	(-2.78)	
Dow Jones Ind Ave	2677.80	(-2.78)	
S&P Composite	467.59	(+0.10)	
US LUNCHTIME RATES			
Federal Funds	3 1/4		
3-mo Treas Bill Yld	3.185%		
Long Bond	10.52		
Yield	8.01%		
LONDON MONEY			
3-mo libbank	5 1/2	(5 1/4)	
Life long gilt rate	Dec 11 1993	Dec 11 1993	
NORTH SEA OIL (Augs)			
Brent 15-day Dec	\$18.03	(15.33)	
GOLD			
New York Comex Dec	\$382.1	(385.0)	
London	\$382.75	(385.0)	
STERLING			
New York lunchtime	\$ 1.4895		
London	1.481	(1.4855)	
DM	2.5075	(2.4975)	
FF	8.78	(8.74)	
Sfr	2.2225	(2.2075)	
Y	160.25	(161.25)	
Z Index	80.9	(80.8)	
DOLLAR			
New York lunchtime	DM 1.8835		
DM	5.825		
Sfr	1.5015		
Y	168.375		
London	DM 1.8835	(1.8795)	
DM	5.8275	(5.88)	
Sfr	1.501	(1.494)	
Y	168.2	(168.4)	
Z Index	80.7	(80.3)	
TOKYO CLOSE Y 108.63			
Austria	Sch30	100	100
Belgium	100	100	100
Denmark	DK100	100	100
France	FF100	100	100
Germany	DM100	100	100
Greece	Dr100	100	100
Hong Kong	HK\$100	100	100
Italy	L100	100	100
Japan	Y100	100	100
Netherlands	FL100	100	100
Portugal	Esc100	100	100
Spain	Ptas100	100	100
Sweden	Skr100	100	100
Switzerland	Sfr100	100	100
Taiwan	NT\$100	100	100
UK	£100	100	100
USA	\$100	100	100
West Germany	DM100	100	100
Yugoslavia	Din100	100	100

Japanese contractor seeks protection with \$5bn debts

By William Dawkins in Tokyo

MURAMOTO Construction, a little-known contractor, became Japan's biggest financial failure for more than 45 years yesterday when it filed for protection from its creditors, unable to pay debts of ¥560bn (\$5.67bn).

This is by far the biggest single potential loss facing Japan's banking system since the collapse in asset prices started two years ago, sending the economy into recession.

Of the 50 banks exposed to the group, the leading creditor is Nanto Bank, the main regional bank in Nara prefecture, western Japan, where Muramoto, the country's 24th-largest general construction group, is based. It has ¥56bn of loans to Muramoto, which compares with the bank's ¥3,000bn deposit base.

Nanto is followed by Daiwa Bank, which has led creditors' negotiations with the company, with loans of ¥45bn; Long Term

Credit Bank of Japan, with ¥38bn; and Dai-ichi Kangyo Bank, with ¥28bn.

Muramoto's collapse would cause "adverse effects" for its creditor banks, but they can absorb the loss between them, a senior official of the Bank of Japan, the central bank, said. Creditors had secured collateral for their loans, and had approved the move in advance, a finance ministry official added.

However, the move may increase Japanese banks' caution at a time when lending is already sluggish, one of the factors contributing to the recession.

Until yesterday, Japan's largest corporate collapse since 1945 was that of Sanko Steamship, which filed for bankruptcy in 1985 with debts of ¥520bn.

Tokoku Databank, the private credit research agency, attributed Muramoto's collapse to the failures of property companies with which it had undertaken joint developments. Like other prop-

erty companies, they suffered in the prolonged decline in property prices.

Muramoto, an unlisted company capitalised at ¥2.4bn and with sales of ¥291.5bn last year, specialises in public works projects, but it diversified into golf course construction and property development in the late 1980s. Its difficulties are thought to have started with the collapse of a property company that had ordered a golf course from the construction group. One of its property development partners, Daito, then went bankrupt.

Muramoto yesterday found it was unable to pay its bills after the majority of its creditors had rejected a rescue plan put together by Nanto Bank and Daiwa Bank. It filed for protection under Japan's corporate reorganisation act.

Background, Page 21
Shareholders may be paid in goods, Page 20

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Norway may cut oilfield tax breaks

By Karen Fosell in Oslo

NORWAY is considering reducing tax concessions to oil companies that retain high levels of debt, in an effort to stabilise government revenues from the North Sea.

The measure would seek to offset revenue losses suffered after special tax concessions were introduced last year, Mr Arne Oelen, permanent finance ministry secretary, said yesterday.

The new rules had led to higher dividend payments and profit repatriations, Mr Oelen told a petroleum tax conference in Oslo.

The measure being considered would affect both domestic and foreign oil companies operating in the North Sea.

"We are currently considering different measures to avoid substantial revenue losses as a consequence of the increase in dividend payments and profit repatriations after the introduction of the new (petroleum) tax and accounting rules in 1992," Mr Oelen said.

Last year Norway introduced important tax reforms in the energy sector in which it substantially increased the

so-called special income tax rate, and abolished a production allowance, together with petroleum royalty payments on natural gas.

Mr Oelen said that as a result of these changes the reserve fund requirements and dividend taxation rules were no longer effective in terms of binding capital in the Norwegian petroleum tax jurisdiction.

Mr Oelen said, Norway actively uses income tax to ensure the state a larger share of total (petroleum) revenue when the oil price increases, and to avoid a serious worsening of the working climate for the oil companies in times of lower pre-tax incomes.

Options being considered were an increase in the so-called special income tax and changing the regulations so that companies would be discouraged from maintaining high debt levels as a way of increasing tax allowances.

Norway's current account surplus jumped to Kr15.27bn (\$1.4bn) in January-August from Kr10.63bn in the same period a year ago, the Central Bureau of Statistics said, Reuters reports from Oslo.

Danish bank rescue backfires on minister

By Hilary Barnes in Copenhagen

DENMARK'S Social Democratic coalition government, which promised a "decade of decency" when it came into office in January, has become embroiled in a controversy over a banking rescue operation.

The opposition is calling for the resignation of Mr Ole Stavad, minister for taxation, for allegedly misleading the Folketing, or parliament, over his part in a rescue action in August for a bank in Mr Stavad's North Jutland constituency.

Mr Poul Nyrup Rasmussen, the prime minister, whose government has only a one-vote majority, was forced at the weekend to give in to demands from the opposition and from within the ranks of the coalition parties for an "impartial investigation" into the rescue.

Mr Stavad's troubles began when the government negotiated a deal with a North Jutland savings bank, Sparekassen Nordjylland (Spar Nord) to keep open the offices of a small local bank, Himmerlandsbanken, in the town of Hobro, which had collapsed with debts

of around DKr400m (\$402m). According to Spar Nord's managing director, Mr Jorgen Giversen, the savings bank obtained a "crystal-clear" agreement that, as the price of taking on Himmerlandsbanken's operations, the savings bank would be allowed to make a tax-loss deduction of DKr173m.

However, when opposition politicians looked at the deal, they concluded that the offer of a tax-loss deduction was illegal. A tax-loss deduction is legal only if a company takes over another company in its entirety, but Spar Nord took over only part of Himmerlandsbanken, which was subsequently declared bankrupt.

Confronted with this argument, Mr Stavad said the government had never promised the savings bank a tax deduction, only that it could make normal loan-loss provisions for DKr173m.

In that case, retorted Spar Nord's Mr Giversen, the government misled the savings bank's shareholders.

He published a fax from the Customs and Excise Board, sent to him at 4 am on Monday August 23, after a weekend of negotiations with the government, which appears to con-

firm his version of events. "We told the government during the negotiations that the alternative to a tax-loss deduction of this order was payment of about DKr35m in cool cash to make up the difference between the assets and liabilities we were taking on," he says.

Mrs Kirsten Jacobsen, of the right-wing Progress party, who has spearheaded the attack on Mr Stavad, claims that the minister has repeatedly misled the Folketing and its committees in his attempts to escape blame.

The opposition parties yesterday accepted the government's proposal for an impartial investigation, which for the moment takes the pressure off Mr Stavad.

Mr Rasmussen's government took office when the prime minister for over 10 years, the Conservative party's leader, Mr Poul Schluter, resigned following a judicial inquiry.

The inquiry's highly controversial report found that he had misled the Folketing when reporting to it on the so-called Tamil scandal, in which his minister of justice illegally denied Tamil refugees the right to bring their families to Denmark.



UN peace envoy Thorvald Stoltenberg (right) speaking to aid truck drivers in Belgrade yesterday

Appeal over new Bosnia atrocities

THE International Red Cross yesterday warned of mass expulsions in central Bosnia amid allegations that civilians were being summarily executed, writes Laura Silber in Belgrade.

The ICRC denounced the "blatant violation" of international humanitarian law around Vares, a Croat-held town in central Bosnia, appealing to the mostly Moslem government army and Bosnian Croat forces to stop the "harassment" of civilians. "Thousands of civilians have been forced to flee from their homes... they are fleeing looting, death threats, mistreatment and are desperately

searching for protection," the Geneva-based organisation said. The Bosnian army is fighting against Croat forces for land near Vares.

The town straddles one of the main aid routes linking Sarajevo to Tuzla. In Belgrade yesterday, Mr Thorvald Stoltenberg, UN peace envoy, protested against the detention of the crew of two Sea King choppers, who had been delivering relief supplies to Srebrenica, the Moslem enclave in eastern Bosnia. The incident comes after Serb forces flouting Srebrenica's status as a UN "safe area", seized control of part of the Moslem enclave.

Kurd rebellion spoils Turkey's 70th birthday

By John Murray Brown in Istanbul

THERE was an air of unreality last weekend as Turkey celebrated its 70th year as a republic. As television quiz shows hosted young soldiers in full battle dress, the evening news carried footage of conscripts being air-lifted in coffins draped in the red Turkish flag.

The worsening rebellion in Turkey's Kurdish-speaking region is putting intense strain on the conservative-led coalition of Mrs Tansu Ciller, raising questions about its survival.

Last week, hardliners from Mrs Ciller's True Path party were promoted to key defence and interior ministries, apparently without the junior partner Social Democratic Populists being informed.

As both parties now set their sights on the nationwide municipal elections next March, and as they appeal to their traditional constituencies, the cosy cohabitation of the coalition looks shaky.

If the coalition breaks up, as Turkish newspapers were already predicting at the weekend, western diplomats believe Mrs Ciller could win support as a minority government. Should the her party emerge strongly from the March polls, Mrs Ciller might then be tempted to call early general elections, probably in the autumn.

The logic for both parties is that the present policy stalemate could damage their electoral chances. Since they swept the municipalities in the last local elections in 1989, the Social Democrats' standing has been hurt by a corruption scandal in the municipality of Istanbul, which it runs, and the failure to unite with other left-of-centre parties.

When the coalition was formed following the election in October 1991, there was a

Three Turkish officials will go to Damascus this week to urge Syria to curb the activities of guerrillas battling for a separate Kurdish state in Turkey, Reuters reports from Ankara.

Turkey has long urged Syria to help prevent cross-border infiltration by Kurdistan Workers' party (PKK) rebels. A Turkish-Syrian dispute over the PKK has long been a sticking point in south-east Turkey.

Prime Minister Tansu Ciller, last week accused Syria, Iraq, Iran and Armenia of allowing the PKK to use their territory and said she would pursue diplomatic efforts to persuade them to desist. Syria says it regards the PKK as an illegal organisation and arrests its members when it finds them.

popular expectation that the need to find common cause would force both parties to moderate their traditional positions - the True Path party forced to take on a more reformist Kurdish policy, and the Social Democrats to adopt a more pro-business and economic stance.

But Mrs Ciller has paid only lip service to the need for a national policy on the Kurds, while casting more powers to the military. In the prosecution of what one of her ministers last week publicly conceded was now a full-scale war. With the bloodshed escalating - more than 2,000 people have been killed this year alone - last week's cabinet reshuffle reflected her party's concern that the military may use the current crisis to impose martial law in the region.

Equally, Mrs Ciller's economic reforms have been hampered by what one senior western diplomat called the "bureaucratic inertia" of the Social Democrats. Her efforts to legislate by decree have now been overruled by the constitutional court.

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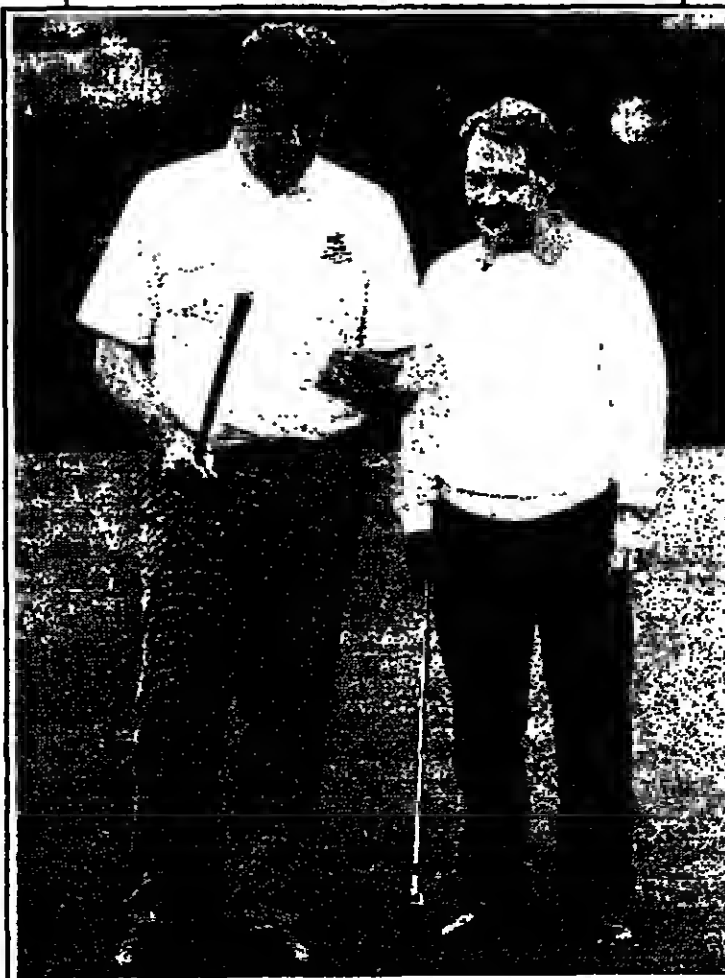
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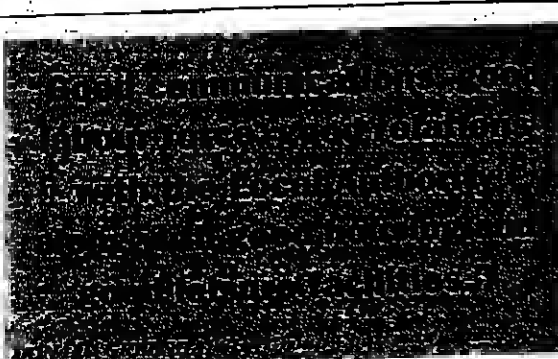
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NEWS: INTERNATIONAL

Corruption probe jeopardises Kenya aid

By Leslie Crawford in Nairobi

KENYA'S donors are investigating financial mismanagement and allegations of corruption involving more than \$125m (\$22.7m) at the state-owned Kenya Post and Telecommunications Company. Further irregularities have been revealed by a former manager of KPTC, now living abroad, who told the Financial Times that an inventory check last year on stock worth \$260m on paper produced "huge discrepancies".

Donor officials believe that

some of the funds were channelled to a group of local banks which lent the money on to government officials or supporters of the ruling Kanu party.

These banks are already under investigation by the government, acting with the encouragement of donors.

Negotiations for a new International Monetary Fund agreement and plans for a donor conference in Paris this month could be jeopardised unless the government of President Daniel arap Moi takes urgent steps to overhaul KPTC, one of Ken-

ya's largest state-owned companies.

Without the IMF endorsement of economic policy, donors are unlikely to resume financial aid frozen since November 1991. And without the renewal of aid, Kenya faces a balance of payments crisis. It is \$700m in arrears to its foreign creditors.

Donors are seeking an explanation of KPTC's failure to remit to the Treasury the 18 per cent value added tax it charges on telephone bills. The information is disclosed in an auditor general's report which also reveals that the company

has not paid corporation tax since 1988.

The report shows that KPTC has accumulated arrears on its own foreign debt, on its contributions to the National Social Security Fund, and on a special telecommunications tax.

The monies owed are said by western officials to total more than \$125m, an amount equivalent to about half the company's annual turnover.

KPTC deposited hundreds of millions of shillings in scandal-tainted domestic banks. According to a western official investigating the KPTC man-

agement, these funds were on-

lent to government supporters. Although four of these banks were closed earlier this year, auditors are still trying to trace the deposits of KPTC and the company pension fund held at another, Transnational Bank. The bank has fended off closure by promising to inject fresh capital to cover bad loans, but one of Transnational Bank's main shareholders, Mr Jared Kagwana, has fled the country after being questioned by police over alleged embezzlement.

A former manager at KPTC

has also accused company executives of faking the theft of millions of dollars of equipment so that it could be resold to KPTC for instant self-enrichment.

Mr Stanley Ball, KPTC's chief general manager until October 1992, says he was fired for refusing to authorise a \$20m procurement order for spare parts. According to him, thefts of stocks were being reported to justify the purchase of the same goods.

He ordered an inventory check and encountered "huge discrepancies".

Japanese new car sales show steep decline

By Michio Nakamoto in Tokyo

THE SEVERITY of the downturn in Japan's car market was underlined yesterday by registration figures for October which showed that sales of new cars were down 11.3 per cent on October last year.

The figures, from the Japan Automobile Dealers Association, represent the seventh consecutive monthly decline in new car sales, and a 15.5 per cent fall from September. Vehicle sales in October amounted to 374,237 units, while car sales were nearly 10 per cent down to 283,516 units.

The gloomy figures, which came despite the opening of the biennial Tokyo Motor Show last month and the recent launch of several new models by Japanese manufacturers, reinforced growing concerns in the country's motor industry about the timing of a possible upturn.

Nissan Motor, which on Friday announced a pre-tax loss of ¥28.9bn (\$180.6m), over double its loss in the previous half, said it was becoming extremely difficult to keep to

its goal of breaking even this

fiscal year after returning to profit in fiscal 1994.

While the company was still pinning its hopes on stronger demand during the winter bonus season, the growing possibility that Japanese employees would receive lower bonuses this year casts a cloud over that scenario. "The recovery may not come until next year," Nissan conceded.

Honda, which saw its sales in October, excluding imports from the US, drop 28.4 per cent, said it was becoming very difficult to read the market.

Other Japanese carmakers are expected to confirm the difficult trading environment when they announce figures for the six months to September in the weeks ahead.

Meanwhile the rise of the yen is leading one Japanese carmaker after another to raise prices in the US market, a trend which many of them fear could result in a loss of market share.

Mazda became the latest company to announce a price rise, of 2 per cent, yesterday, following a 4 per cent increase in September.

Australia to let Tiananmen exiles stay

By Nikkai Tait in Sydney

AUSTRALIA is to allow about 19,000 Chinese citizens, who were living in Australia at the time of the Tiananmen Square massacre, to apply for permanent residence, the federal government announced yesterday.

They had previously been granted only temporary residence.

Yesterday, announcing a number of changes in Australian immigration policy, Senator Nick Bolles, the immigration minister, said Chinese nationals who were in the country at the time of the 1989 upheavals, and families who had joined them subsequently, would be granted permanent residence provided they met certain health and character criteria.

He estimated that about 28,000 Chinese could become permanent residents under the scheme. "We will basically give formal legal recognition to (their) status here by this decision," Mr Bolles told a press conference in Canberra.

He said the treatment of these individuals would be outside the "normal" migration programme, but the cost to the country would be limited. "Those people are here, they're

working here, they have very low dependence on social security.

"The cost of them coming into the community, the further integration of them, is minimal, if anything at all."

Meanwhile, asylum-seekers who arrive in Australia before applying for refugee status will also be entitled to permanent residence rather than the temporary residence they are now offered if their applications are successful, the government announced. Since 1990, people granted refugee status after they arrived in Australia, such as the Cambodian boat people, have been given only temporary residence permits.

And a third new measure, also announced yesterday, will create a new onshore permanent residence category for Chinese nationals who arrived in Australia after Tiananmen, and for Sri Lankans and nationals of the former Yugoslavia who live in Australia under special humanitarian concessions. To be eligible for this category, applicants must satisfy certain age, educational and visa conditions.

Immigration to Australia dropped sharply last year, from 107,391 in 1991-92 to 76,330 in the following 12 months.



Jewish settlers from the occupied West Bank block a main road with blazing tyres yesterday to prevent Palestinians from reaching their workplaces. The settlers began demonstrating on Friday following the stabbing of a fellow settler by militant Palestinians

Israeli poll is test for peace drive

By Julian O'zanne in Jerusalem

ISRAELIS go to the polls today to vote for new municipal authorities in the first test of nationwide public political sentiment since the signing of the historic Israeli-Palestinian peace accord.

Although the 3.3m registered voters will be influenced by a range of issues from education to rubbish collection, political analysts say the poll will also indicate national feeling about the unfolding peace process. Mr Yitzhak Rabin, prime minister, has said he views the elections as a vote of confidence by the public in his peace drive.

The two greatest electoral battles, and the ones which

are most likely to provide a political weather vane, are in Jerusalem and Tel Aviv.

In Jerusalem Mayor Teddy Kolek, an 83-year-old veteran of Mr Rabin's Labour party, has been fighting a tough race to keep control of the Holy City against competition from Mr Ehud Olmert, a member of parliament from the right-wing Likud party.

Opinion polls show the two neck and neck after a campaign marked by personal attacks and questions about whether Mr Kolek is fit enough to stand another term of office.

Jerusalemites, who live on the fault-line of the Israeli-Palestinian conflict, are deeply concerned about security

issues particularly for the massive Jewish settlements nearby and the future status of the city.

Both candidates in Jerusalem agree on the unity of the Jewish West with the Arab East of the city and both back Jewish development of East Jerusalem.

But Mr Olmert favours a much more aggressive settlement policy, with Jews moving into neighbourhoods reserved under Mr Kolek's administration for Arabs.

Palestinians say a victory by Mr Olmert would exacerbate Arab-Jewish tensions in the city and make a compromise on its final status - such as joint or international administration - much more difficult.

However, the 80,000 registered Palestinians living in occupied East Jerusalem are divided about whether to vote in the poll, even if it would ensure victory for Mr Kolek.

In Tel Aviv, usually a more liberal and secular city than Jerusalem, Mr Benami MBO, a former Likud police minister, is fighting Mr Avigdor Kahalani, a war hero from the Labour party, to succeed Mr Shlomo "Chich" Lahat, the long-time mayor.

Defeat for Labour in both cities could be a serious setback to the peace process and bolster the right-wing opposition, which has seemed increasingly divided and marginalised by Mr Rabin's initiatives.

Trade figures for September boost markets, dollar

By Nikkai Tait in Sydney

BETTER than expected trade figures for September yesterday gave new heart to the Australian stock market and dollar, as investors concluded that the country is moving out of recession with a fairly strong export performance.

The balance of payments deficit in September was \$1.14bn (\$535m) on a seasonally adjusted basis, far below the deficit of \$1.3bn in August, and well below most market forecasts, which ranged between \$1.2bn and \$1.5bn.

On the trade front, Australia enjoyed a surplus in September, with exports up 9 per cent to \$5.64bn, while imports rose only four per cent, at \$5.53bn. This left a \$110m positive balance on merchandise trade, compared with a \$151m deficit in August.

The news caused the Australian dollar, badly buffeted in the recent stalled passage of the budget, to close almost one US cent higher, at 87.29 cents after touching 87.25 cents. On the stock market, shares also rallied strongly, with the all-ordinaries index closing 20.2 points higher at 2,132.4.

Some analysts, however, cau-

tioned that the trade figures had been boosted by exceptionally strong exports of gold, and that the previous weaknesses in the Australian dollar had aided exporters' performance generally. Gold exports in September jumped 87 per cent.

"There are still some grounds for pessimism about the immediate future of the current account," warned Mr Chris Caton, chief economist at Bankers Trust Australia. "The rest of the world remains quite weak, and we may not have yet seen all the valuation effects on imports of the lower Australian dollar."

Industrial unrest looms again on Australia's notoriously difficult waterfront after a breakdown in talks between Australian Stevedores and the Maritime Union of Australia over forced redundancies.

Australian Stevedores announced plans to shed 317 workers several months ago. The loss to a brief national strike in September.

Yesterday Mr John Coombs, national secretary of the MUA, claimed the company had renewed attempts to sack employees, despite agreement by some 231 workers to take voluntary redundancy.

Kuwait ponders radical action

By Mark Nicholson in Cairo

KUWAIT is considering unprecedented moves to trim a KDI5bn (\$3.3bn) budget deficit for the current year, including charging fees for public services, allowing foreign participation in upstream oil operations and possibly levying taxes on its citizens.

Mr Nasser al-Rodhan, Kuwait's finance minister, told the local Al-Sayaseeb newspaper that the "decision is approved" to charge for some services, though he did not specify which, or when fees would begin. Kuwaitis enjoy considerable subsidies on power, water and local telephone services.

Mr Al-Rodhan said the fees

would be introduced only after consultation with the Gulf state's parliament, which reconvened last week, and that low-income Kuwaitis would be exempt.

The minister also said that allowing foreign oil companies to participate with the state Kuwait Oil Company in drilling and exploration was "under study", adding: "The motives behind such decisions are economic."

Kuwait has since the Gulf war entered joint contracts with BP for technical support and onshore oil production. But upstream activities have been kept in state hands since Kuwait became the first Gulf state to buy control of its

oil production industry in 1975.

Diplomats in Kuwait City said talks between KOC and some oil groups had already begun on possible opportunities, which Mr al-Rodhan said would offer Kuwait both fresh foreign expertise and, more particularly, foreign capital.

The government is doing more than ever to trim outgoings in the face of a budget deficit of KDI4.9bn - including statutory appropriations for the Reserve Fund for Future Generations - and under the close eye of the country's increasingly economically sophisticated parliament.

The true deficit in Kuwait's public finances is almost certainly bigger than the published figure, which does not include all

Kuwait's military spending or

foreign debt repayments.

Mr al-Rodhan said that "until now and with our financial resources we can cope with the demands", but added: "The situation in the next stage will make it necessary for us to start thinking seriously of taxation."

Mr al-Rodhan's remarks follow leaks in Kuwaiti papers of an International Monetary Fund report, banded to the government in late August, which recommended cuts in subsidies, shrinkage of the public sector and other revenue-raising measures, including limited privatisation.

Economists in Kuwait reckon that service fees could raise KD300m a year.

Turkmenistan leads new rouble refugees

THE CENTRAL Asian republic of Turkmenistan yesterday introduced its own currency, the manat, launching it at a value of 50 US cents and 500 Russian roubles.

Turkmenistan is the fifth of the 15 former Soviet republics to introduce a fully independent currency - and it does so as other republics prepare to leave the rouble zone, many of them complaining that the conditions set by Russia for remaining in the zone are too strict.

Estonia, Latvia and Lithuania, the three Baltic republics, each has its own currency, while the smallest central Asian state, Kyrgyzstan, introduced its unit, the som, in May. Three other republics - Azerbaijan, Georgia and Ukraine - use coupons, all of which are highly inflationary.

Turkmenistan, with between

10,000bn and 15,000bn cubic metres of natural gas and oil reserves estimated by the government at 6.3bn tonnes, has eschewed backing - though not advice - from the International Monetary Fund, relying

on its own reserves of more than \$300m held in foreign banks to support the manat. Foreign observers in the capital, Ashgabat, expect the manat to fall to between 5 and 7 manat to the dollar when currency trading begins on Saturday. However, Mr Valery Otcherosov, the deputy prime

minister in charge of the economy, says that "it is simply a matter of time before the currency is accepted at other currency exchanges and traded internationally".

Turkmenistan whose regime under President Saparmurat Niyazov has retained tight control built round a growing presidential personality cult, is presenting itself as a stable location for foreign investment. Prices for the largely state-controlled staples are to be raised and a privatisation programme - which will exclude the oil and gas sector - is also due to be launched.

In spite, or because, of Mr Niyazov's gestures - such as erecting statues and portraits of himself all around the capital and his receipt last week of a bust from Turkmen businessmen containing 1.6kg of gold - most foreign diplomats and observers expect the Turkmen-



istan economy to prosper.

"Russia and Turkmenistan are the only two former Soviet republics which can stand on their own," said Mr Vadim Cherepov, the Russian ambassador. A US diplomat said that "if it follows the IMF recommendations it will have the most successful currency introduction of the former Soviet states".

Dissatisfaction with the rou-

ble zone may force other republics to follow. Last week, President Nursultan Nazarbayev of Kazakhstan was granted powers by his parliament to introduce a national currency after a demand by Russia that the roubles issued to Kazakhstan must be backed by its reserves of gold and hard currency reserves.

"We made all possible concessions (to Russia), but now

Moscow has asked us to do the impossible - hand over billions of dollars," Mr Nazarbayev was quoted by the Interfax news agency as saying at the parliamentary session last Thursday.

An agreement signed in September between Armenia, Belarus, Kazakhstan, Russia, Tajikistan and Uzbekistan committed these six republics to remain in the rouble zone under the control of the Russian central bank, in spite of the publicly expressed scepticism of many in the Russian cabinet. However, no new Russian roubles have yet been delivered to the other states, forcing them to use pre-1993 notes which the Russian central bank has withdrawn from circulation in Russia itself.

The Moldovan government has said it is to introduce its new currency, the leu, this month - rumoured to be on November 20.

N Korea slated over inspection

NORTH KOREA'S failure to comply with international nuclear safeguards "has been widening" and continuity of some data was already damaged, the head of the UN inspection's body said yesterday, writes Michael Littlejohn in New York.

Dr Hans Blix, director-general of the International Atomic Energy Agency, said the longer verification was blocked the less assurance there could be that even North Korea's "declared facilities" were for peaceful uses. Reporting to the UN General Assembly, he rejected Pyongyang's attempt at piecemeal verification, saying inspection must

be an integral whole. As he addressed the UN, the North Korean delegation published the text of a message agreeing to inspection "for the purpose of maintenance and replacement of the safeguards equipment". As for routine and random inspections proposed by IAEA, these would depend on progress in talks now being held with the US and on the agency's own attitude, which currently was one of "partiality and inflexibility".

If IAEA did not respond positively to what North Korea characterised as its goodwill gesture, it must be held accountable for the consequences.

Dinkins struggles to fend off challenger

By Jurek Martin in Washington

MR. RUDOLPH GIULIANI, the Republican liberal candidate, remains the slight favourite to oust Mr. David Dinkins, the Democrat, as mayor of New York today in the most eye-catching of elections across the US.

The latest polls put the two men on a virtual dead-heat, but this may understate support for Mr. Giuliani, the former federal prosecutor. Four years ago Mr. Dinkins beat Mr. Giuliani by only 2 per cent, having taken an apparent double-digit advantage into polling day.

Voter turnout among the city's minorities, especially blacks, will be pivotal.

In other closely watched races, Mr. James Florio, Democratic governor of New Jersey, still leads Mrs. Christine Todd Whitman, the Republican challenger, though by nothing like the 10-15 point margin he was accorded two weeks ago.

This race is seen as a mini-referendum on the policies of the Clinton administration. Both President Bill Clinton and his wife have campaigned actively for Mr. Florio, whose tax increases three years ago

The Wall Street securities house Kidder, Peabody has agreed to keep its headquarters and 3,000 employees in New York city in return for \$31m in tax incentives from the municipal government, writes Patrick Harverson.

The firm's decision was a victory for the city's mayor, Mr. David Dinkins, as the loss of Kidder would have been a blow to the city's shrinking tax base, its fragile morale and the mayor's re-election hopes.

reduced his popularity to near oblivion. Over the weekend Mrs. Hillary Rodham Clinton told a Florida rally: "I cannot state how important this is, to stand by a governor who has not finished."

In the governor's race in Virginia, Ms. Mary Sue Terry, the Democrat, is still trailing Mr. George Allen, Republican son of a famous football coach. Mr. Allen has been vigorously supported by the religious right-wing, though the key factor may be discontent with 12 years of Democratic rule.

Changes are also expected at the helm of several large and

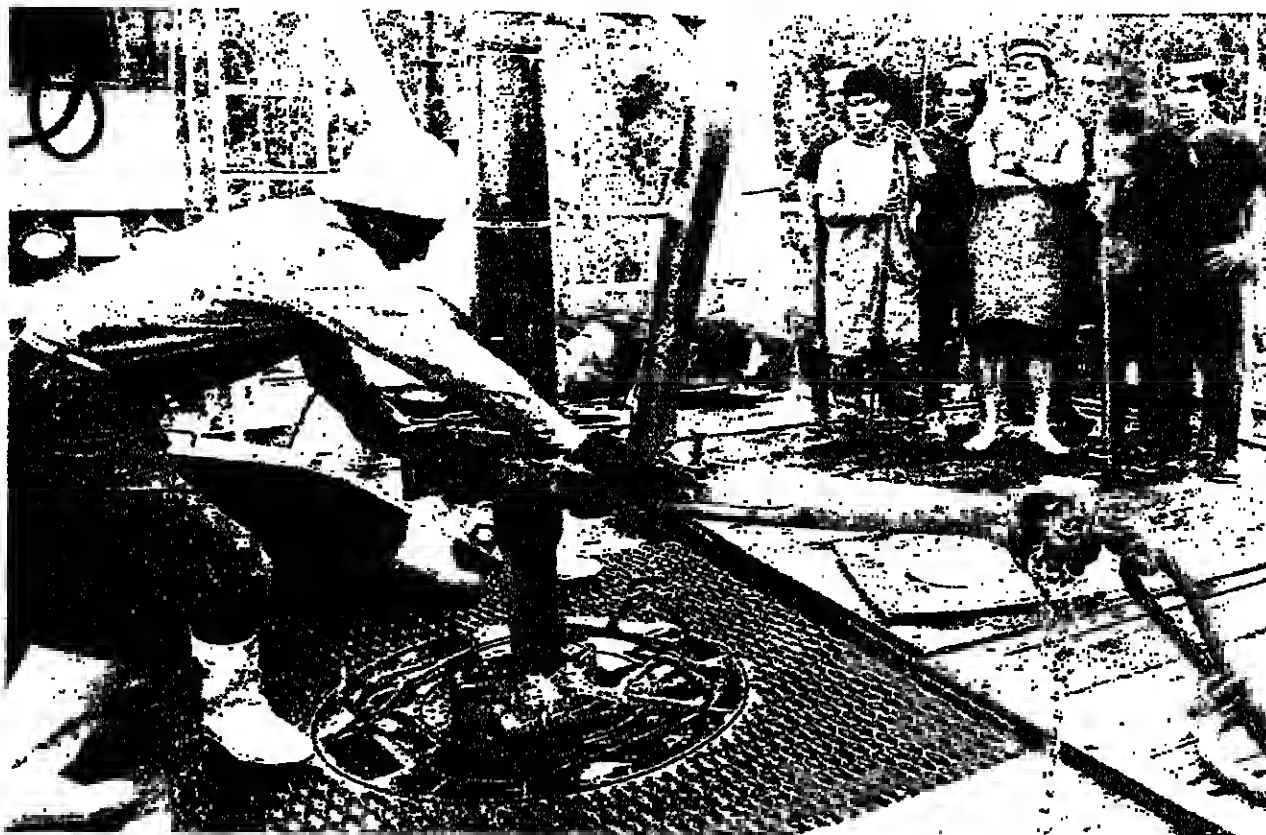
troubled US cities, partly brought about, as in Detroit and Atlanta, by retirement of the old generation of Democratic black urban leaders. Contests in Cleveland, Seattle and Minneapolis will be closely watched.

So, despite its different racial composition, will be the outcome in Miami, where Mr. Stephen Clark, an older white Democrat who speaks no Spanish, is favoured over a Cuban exile and an outspoken black. Mr. Clark, however, is endorsed by the outgoing mayor, Mr. Adolfo Suarez.

In California, Proposition 174 would provide education subsidies, in the form of vouchers worth about \$2,600 a head, useable at private schools.

In spite of the support of former President Ronald Reagan and leading national and religious conservatives, it is expected to lose today because of an effective campaign against it by Mr. Pete Wilson, the incumbent Republican governor, and by Mr. Clinton. But a more modest version could well carry the day in the future.

In Washington state, public opinion seems evenly divided on initiatives to curb spending.



INDIANS BRING DRILLING TO HALT AT AMAZON WELL

ABOUT 50 Indians from the Cofan tribe (pictured above), armed with spears and shotguns, forced workers at a Petroecuador site in Ecuador's Amazon forest to stop drilling last week, in a protest against planned oil exploration, writes Raymond

Colitt from Quito. The Indians later agreed to a temporary resumption of the exploratory work if Petroecuador's director came to the area for further negotiations. President Duran Ballen authorised drilling at the well in the Cuyabeno nature

reserve in September, but the work has since been surrounded by controversy over its impact on the area's indigenous groups. The Cofans are opposed to the building of an access road through their land.

Salinas calls for civility in elections

By Damian Fraser in Mexico City

PRESIDENT Carlos Salinas yesterday called on all Mexico's political parties to sign a pact of civility to ensure "transparent and exemplary" presidential elections next August.

In his annual state of the nation address, President Salinas promised the contenders "full respect, abiding by the terms of the law, and proper conditions for them to present their options to Mexicans in full freedom."

Mexico's 1988 presidential election, which brought Mr. Salinas to power, was widely held by observers to have been marred by ballot-rigging.

Mr. Salinas's government has recently passed new democratic reforms, but they have been dismissed as inadequate by the main opposition candidate, Mr. Cuauhtémoc Cárdenas, and some foreign and domestic observers.

Despite the call for an electoral pact, Mr. Salinas suggested there would be no more significant concessions to the opposition.

The president appeared to rule out the possibility of foreign observers participating in the electoral process, saying "only Mexicans" would be the guardians of "our" democracy.

The president announced that Mexico's reserves rose to \$23.07bn at the end of October, from \$22.597bn. The high level of reserves seems to dispel fears that there has been an outflow of capital provoked by uncertainties over the North American Free Trade Agreement.

The executive branch is due soon to send the Mexican Congress legislation that will make the central bank independent.

The legislation may be in place, and possibly the head of the bank named, before the vote on NAFTA expected on November 17 in the US Congress.

President's loose talk worries Guyana businessmen

The former Marxist is confusing investors, reports Canute James

THERE is peace, for the moment, between the office of Guyana's President Cheddi Jagan and the city council of Georgetown, the capital, which is dominated by the opposition party.

Mr. Jagan recently referred to the councillors as "rascals". The councillors said they did not fit the dictionary's definition of the word, and asked for a public apology from the president. They got it.

But some of Mr. Jagan's public statements are leaving a more lasting and confusing impression. He has described his own administration as a "working class government" guided by the ideology of the working class, which is Marxism-Leninism, and not the philosophy and practice of capitalism.

The statement created some consternation among local and foreign

business, which had happily accepted Mr. Jagan's undertaking to continue with the open market economic policies which he inherited a year ago when his People's Progressive party won an election and ended 28 years of government by the People's National Congress.

Mr. Jagan's later elaboration - to the effect that while the PPP was guided by Marxism-Leninism, the government which it had formed was not - did not temper concerns about the real direction of economic policy in the English-speaking country of 850,000 people on the north-east shoulder of South America.

"We in Guyana understand Pres-

ident Jagan, and we do not take this statement seriously, but people outside the country will," said Mr. Hans Barrow, president of the Chamber of Commerce. "We have simply elected a leader who speaks like this."

Mr. Barrow said, however, that local business leaders would understand why foreign investors and potential investors would be worried, and would wait before committing themselves when the president made such statements about ideology. He said there must be a two-way flow of business confidence.

Dr. Jagan, a 74-year-old dentist and once an avowed Marxist, moved towards moderation just before taking office.

The concern among local business leaders is that, although such statements about ideology might not reflect the government's economic policy, they could derail the expansion of an economy which, by any standard, has been doing remarkably well.

Several consecutive years of contraction ended in 1991 with growth of 6 per cent.

According to Mr. Asgar Ally, the finance minister, the growth continued in the first half of this year, and he has forecast expansion of 7.8 per cent for this year. Mr. Ally said this was the result of expansion in mining and agriculture. Once-inflation is projected at 6 per

cent this year, helped mainly by stability of the currency following a 64 per cent depreciation which followed the floating of the currency in 1991.

Mr. Ally said higher export receipts, foreign investments and funds for balance of payments support had led to an improvement of \$52.4m in net international reserves in the year ended last June.


All this has not impressed the opposition PNC, which described the government's first year as "a failure". Mr. Desmond Hoyte, the opposition leader, said the economy had lost its momentum and vibrancy. "Business confidence has receded, there has been no new major investment, vital development projects ini-

tiated by my administration have been stalled, and... there is a marked paucity of disbursements from international financial institutions," he said.

There have been 33 new private investment projects valued at \$38.1m in agriculture, mining and financial services since the government took office," argued Mr. Ally.

There is continuing uncertainty, however, over the government's commitment to the programme of divestment of state enterprises inherited from Mr. Hoyte's administration. It suspended the programme soon after taking office, saying it would investigate earlier deals. Mr. Ally has since said the government is committed to divestment, and has listed 30 companies, including the national airline and the sugar company, which it wants to sell.

CONTRACTS & TENDERS



ESTONIA

International Tender for the sale of


INDUSTRIAL ENTERPRISES

by the Estonian Privatization Agency

Closing date:
December 16, 1993

Enterprise number, name, location (in brackets: type of business/number of employees at June 1993)

GENERAL INDUSTRY <small>[Capacity/turnover in EEK per year]</small>	WOOD AND WOOD PROCESSING <small>[Capacity (S = Sawm timber, L = Logs) per year]</small>	WHOLESALE & TRANSPORTATION <small>[Turnover in EEK per year]</small>
EE-021 RAS Salla Viljandi Plant EE2900 Viljandi (Fruit and vegetable preserves [5 mio pcs], canned meat [2.5 mio pcs]/100)	EE-405 RAS Aegviidu Metsamajand EE2230 Aegviidu, Harju Maakond (Logging and transport, wood processing, articles [S 3,500 cbm, L 15,000 cbm]/83)	EE-420 RAS Puitseks EE0012 Tallinn (Sawn timber, souvenirs, shelves, wooden cases, summer cottages, timber trading, transportation [S 3,000 cbm, L 10,000 cbm]/49)
EE-027 RAS Bati ES EE2900 Narva (Turboelectric vacuum pumps, remote control ray therapeutic apparatus, mechanical manipulators, radioisotope thermoelectric gen- erators, measuring devices, plastic parts/700)	EE-406 RAS Alutaguse Metsamajand EE2202 Iisaku, Ida-Viru maakond (Logging and transport, wood processing, woodprocessing services [S 3,000 cbm, L 20,000 cbm]/64)	EE-422 RAS Tudu Metsamajand EE2060 Sonda, Ida-Viru Maakond (Wood processing, timber trading [S 3,000 cbm, L 20,000 cbm]/64)
EE-094 RAS Viru Silup EE2200 Kadriina, Lääne-Virumaa (Syrup [7,200 t], starch [processing of raw potatoes 30,000 tons]/48)	EE-407 RAS Elva Metsamajand EE2442 Elva, Tartumaa (Timber trading, wood for paper production, sawn beams, firewood, sawn timber [S 7,000 cbm, L 20,000 cbm]/78)	EE-423 RAS Valgamaa Metsamajand EE2500 Valga (Sawn timber, wood processing [S 4,500 cbm, L 20,000 cbm]/83)
EE-333 RAS Vöru EPT EE2710 Parksepa, Vöru Maakond (Feed production [poultry 1,251 ha], metal processing, services/134)	EE-408 RAS Hiumaa Metsamajand EE2300 Kunda (Wood trading, sawn timber, wooden construc- tion components, wooden articles, furniture [S 6,000 cbm, L 20,000 cbm]/70)	EE-424 RAS Eesti Põlvras EE0006 Tallinn (Textile wholesale [store 2,700 sqm, warehouse 5,000 sqm, 34 mio EEK]/70)
EE-436 RE Raasku Elekter EE2260 Raasku, Harju Maakond (Electrical control cabinets [3 mio EEK]/98)	EE-410 RAS Kilingi-Nõmme Metsamajand EE2622 Märana, Saarde vald, Pärnu Maakond (Logging and transport, sawing and planing of wood, wooden articles, wood chips [S 4,000 cbm, L 10,000 cbm]/147)	EE-245 RAS Tameks EE0014 Tallinn (Office equipment, electronics wholesale [warehouse 11,000 sqm, 28 mio EEK]/80)
EE-437 RAS EtoRit EE0014 Tallinn (Maintenance of electrical household appliances [2.2 mio EEK]/76)	EE-411 RAS Kohla-Järve Metsamajand EE2442 Kohla, Ida-Viru Maakond (Logging, firewood, sawn timber [S 4,000 cbm, L 8,000 cbm]/77)	EE-246 RAS Eesti Põlvras EE0006 Tallinn (Garments wholesale [2 own shops, 2 rented shops, 33 mio EEK]/90)
EE-439 RE Tallinna Heikassellitehas EE0026 Tallinn (Manufacturing of recorded music tapes [5 mio pcs]/77)	EE-386 RE Siltahitus nr. 423 EE0001 Tallinn (Construction of bridges [300-500 m], freeways and tunnels/148)	EE-257 RAS Unversaal EE0001 Tallinn (Textiles, shoes wholesale [24 mio EEK]/58)
EE-468 RAS Harju Asfaltbetooni tehase EE2270 Lagedi (Asphalt [23,000 t]/74)	EE-396 VE Raudval EE0014 Tallinn (Construction of railways [40 km], general construction/100)	EE-260 RAS ABT EE0017 Tallinn (Food wholesale [warehouse 30,000 sqm, 85 mio EEK]/225)
EE-470 RAS Tartu Asfaltbetooni tehase EE2400 Tartu (Asphalt [150,000 t]/89)	EE-401 VE Berk EE2000 Narva (Pre-cast concrete products [30,000 cbm], structural metal parts, reinforced concrete parts, ready-mixed concrete and mortar/158)	EE-269 RAS Ida-Virumaa Kaubabaas EE2020 Sõme, Kohla-Järve (Food and agricultural raw materials wholesale [15 mio EEK]/71)
EE-226 RAS Sile EE2010 Sillamäe (Construction work, sawn timber, pre-cast concrete, wholesale trading [pre-cast concrete products 55,000 cbm, structural metal products 1,000 t, wooden articles 1,000 sqm]/300)	EE-485 RAS Via EE2400 Tartu (Road construction [20 km road surface, 6 km road]/70)	EE-448 RAS Kopli Autobaas EE0017 Tallinn (General transportation [227 tonnes, average carrying capacity 71.9 mio EEK]/168)



Tender Conditions

- In accordance with its legal mandate, Eesti Erastamisagentuur (Estonian Privatization Agency "EPA") intends to sell the aforementioned enterprises by means of a tender in the following manner:
 - bids for a state owned joint stock company (organized as "RAS" under Estonian law) must be for the majority of the company;
 - bids for a state owned enterprise (organized as "RE" under Estonian law) or a small state owned enterprise (organized as "VE" under Estonian law) must be for its total operations;
 - bids for a plant must be for its total assets (e.g. buildings, household equipment and inventory), with inventory finally to be valued as of the time of acquisition;
 - bids for assets or parts of an enterprise must be for a separable unit of a RAS, RE, VE or plant, with inventory finally to be valued as of the time of acquisition.
- The tender is public and anyone may bid. Legal entities in which the State or the Republic of Estonia or its local municipalities or a municipality or state owned enterprise own one third or more of the share capital or of the voting rights may not bid.
- In deciding among the bids, EPA will take into consideration, among other things, the bid price, promises to maintain or create jobs, pledges to invest, and the business plan submitted, each of which will be considered part of the bid. Upon signing a contract, the successful bidder will be required to post a bond in order to guarantee these pledges.
- Interested parties can obtain enterprise and plant profiles without charge from EPA. EPA is not responsible for the accuracy and completeness of this information. Prospective bidders will receive written authorization from EPA to visit the enter-

- Bids must be in writing and should be submitted in a sealed envelope marked only with the name of the enterprise or plant for which the bid is submitted.
- Bids must be received at EPA, Rätvala 6, EE0105 Tallinn, Estonia, no later than 2:00 p.m. (local time), on December 16, 1993 (the "closing date"). Bids will then be opened immediately. Bids must be denominated in Estonian Kroon (EEK) or Deutsche Mark (DM), and must remain valid for one hundred and twenty (120) days after the closing date.
- Bids must be accompanied by a bond of five (5) percent of the bid price in the form of an irrevocable bank guarantee valid for one hundred and twenty (120) days after the closing date. The bid bond must be payable on first demand and will be forfeited if the bidder either fails to sign a contract in accordance with its bid.
- EPA will decide on the bids within one hundred and twenty (120) days after the closing date. Bidders may present their bids within a period set by EPA. EPA is not bound to accept any bid. EPA may accept a bid other than the highest and may reject any of the bids at any time.
- The tender will be carried out according to applicable Estonian law.

EPA (Estonian Privatization Agency)
Väno Sarmit D. H. B. Schmidt
General Director Chief Consultant

Office hours for the EPA are Monday through Friday from 9 a.m. until 4 p.m. (local time).

For further information (enterprise profile, data on Estonia, visit authorization) please contact:

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NEWS: WORLD TRADE

Fiat gears up to boost Polish operation

By Kevin Done, Motor Industry Correspondent, in Krakow

FIAT, the Italian carmaker, is to expand its operations in Poland, with the local assembly of its Uno small car set to start early next year.

Initially Fiat will carry out the final assembly of the cars at its plant at Bielsko Biala in southern Poland from SKD (semi-knocked down) kits supplied from Turin.

The Italian group, which has established a dominant position in the Polish car industry

following its takeover last year of FSM, the former Polish state-owned car producer, will supply fully welded and painted Uno car bodies and other important components from Italy.

Production of the Uno is planned to begin in January, with output likely to total around 20,000 in 1994.

Fiat is also conducting a feasibility study into the building of a new paint plant at its out-dated Bielsko Biala factory as part of its plans to invest around \$840m (£566m) in its

Polish operations from 1993 to 1995.

The new paint plant would allow the assembly capacity of the Bielsko Biala factory to be raised and would enable Uno production in Poland to move later to more sophisticated full CKD (completely knocked down) kit assembly, in which the Uno car bodies would also be welded and painted in Poland.

Overall Fiat car production in Poland this year is expected virtually to double to around 280,000 from 144,000 in 1992,

according to Mr Paolo Marinsek, managing director of Fiat Auto Poland.

Fiat's takeover of FSM, which was originally agreed with the Polish authorities in May last year, was finally completed six weeks ago, when the Italian carmaker assumed full operating control in the biggest privatisation deal ever reached in Poland and one of the biggest ever undertaken in eastern Europe.

The former FSM, which has now been renamed Fiat Auto Poland, is Fiat's sole produc-

tion location in the world for its smallest cars, the outdated 126, which is sold only in Poland, and the Cinquecento, which has been launched in the last 18 months for sale throughout Europe.

Fiat's strong local production presence had also allowed it to raise sharply its share of the Polish market for imported cars, said Mr Marinsek.

The Polish new car market was expected to total more than 200,000 this year compared with 198,000 in 1992 and Fiat expected to account

for around 55 per cent of all new car sales compared with 39 per cent last year, he said.

It expected to control around 31 per cent of all imported new cars and 65 per cent of sales of domestically produced cars.

Overall Fiat production in Poland should be running by December at 1,090 cars a day (280,000 a year) at its two plants, compared with 850 a day in September 1991, when it began the restructuring of the FSM operations.

Azerbaijan in Caspian Sea oilfields deal

By John Murray Brown in Istanbul

AZERBAIJAN has agreed terms with a consortium of western oil companies to develop oilfields in the Caspian Sea, in a contract worth more than \$7bn.

An official for the consortium, led by British Petroleum, Statoil of Norway and the US companies Unocal, Pennzoil and Amoco, confirmed yesterday that an agreement in principle had been signed in Baku to develop the Azeri and Chirag fields.

The agreement was initially by the team set up by the Azeri authorities and the consortium members. It still has to be ratified by the Azeri parliament and approved by the government, but it would appear to end months of deadlock as the Azeri government of Mr Gaidar Aliyev sought to renegotiate the contract terms. It is understood the consortium will split the proceeds with the Azeri

authorities on a 20:30 production-sharing basis, after development and loan costs have been deducted. The larger share would go to the Azeri.

The consortium is to pay the Azeri a signature bonus of \$500m, half paid when the agreement is ratified by parliament, the rest when an export pipeline deal is finalised.

The two fields, which are expected to be in production by 1996, comprise about 300 barrels of known reserves. The original negotiations included a third field at Gunashli, which is already in production and operated by Socar, the state oil company. Gunashli accounts for close to a third of Azerbaijan's current total output.

The latest deal will spur negotiations about a possible export route for the oil. Turkey is urging Baku to use a proposed pipeline to its Mediterranean coast, avoiding congestion in the Bosphorus if the Black Sea route is chosen.

Devaluation – and Asia – lift Italian exports

Robert Graham on a remarkable expansion into the newly industrialised countries

MR PAOLO BARATTA has the rare distinction of possessing the one problem-free portfolio in the Italian government.

As minister of foreign trade, he is presiding over the most remarkable export growth any industrialised country has seen in the past two decades. On average the value of exports in the first half of the year is up 19 per cent compared with the same period in 1992. They are also up more than 7 per cent in volume terms.

The growth is across the board. Italian exporters have been quick to switch away from the stagnant markets of the main industrialised economies into the fast growing economies of Asia and Latin America. But thanks to the free float of the lira, which has seen it depreciated by about 20 per cent since September 1992, Italy has also managed to increase its share of EC markets, notably in Germany.

One reason for the sharp rise is the fact that exporters are no longer under-declaring sales in the wake of the lira devaluation. In the two previous years exporters had taken advantage of an over-valued lira to under-invoice.

"Devaluation obviously has been important but I don't share the view that this is the

sole reason," says Mr Baratta. "One has to ask why British exports, which have enjoyed a similar competitive advantage from devaluation at the same time as the lira, have not performed nearly as well."

Among the strongest sectors of Italian exports have been industrial machinery and

If the trend continues, exports to the EC will be outstripped by shipments to other markets

mechanical goods, the core of which are machine tools. This industry, which has shrunk in the UK for instance, has remained well-rooted in central and northern Italy.

"These are not big groups producing very large sophisticated machinery like the Germans and the Japanese, but they are small and medium-sized, very flexible and ideal for finding niches between what the Germans and Japanese can offer," says Mr Baratta.

He believes both the size and flexibility of Italian engineering groups adapt well to the specific needs of the fast modernising economies of the Far East, where the demand

for machinery is rising exponentially. Their less complex technology makes it easier to train people, both on the spot and in intensive sessions.

China is a case in point where exports this year are set to double to more than £4,000bn (£1.6bn), accounting for nearly 3 per cent of total

exports. The bulk of this is accounted for by machine tools and engineering goods, especially machinery for the textile industry. Such are the business prospects in China that the ministry, in conjunction with its Chinese counterpart, is to set up a series of "base camps" there. These will be geared to small and medium-sized exporters, offering them space near industrial zones for logistical support, parts storage and training facilities.

There is also strong demand for Italy's consumer products as a result of the new income being generated in the fast growing economies. Clothing, shoes, luxury goods and furni-

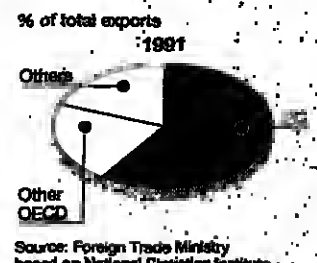
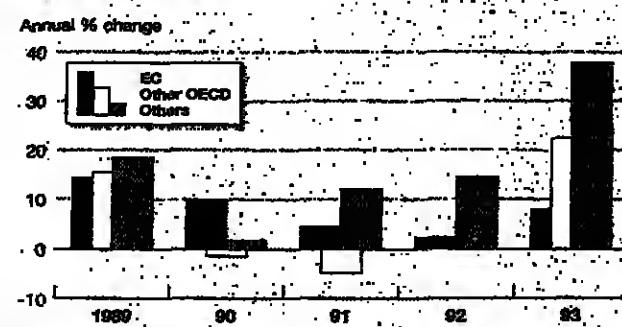
ture and top-range household goods are all doing well. They are competing less on price than they are on brand labels, design and quality.

Trade with non-OECD countries in the first half this year was 26 per cent of total exports compared with 18 per cent for 1992 and 15 per cent in 1990. If this trend continues, non-EC exports will soon be more important than those of the Community. So far this year Italy's exports to the EC account for 54 per cent of the total. Two years ago they were close to 60 per cent.

At the same time, with depressed domestic demand, Italy has seen its import bill drop in spite of the devaluation. Thus in the case of Germany, Italy has recorded a first half trade surplus of £2,734bn compared with a £3,995bn deficit in the same period in 1992. A similar trend was evident with France its second trade partner and to a lesser extent with the UK.

Italy's real exchange rate is now back to the level of the 1970s, when the current account was broadly in balance. In the latter part of the 1980s and in 1990-91 exports lost their momentum and the trade balance deteriorated. The annual growth in 1991 exports was down to 3 per cent.

Italy: exports



This reflected a combination of an over-valued lira and a period of sustained high increases in production costs, especially wages. Having long risen above inflation, wages for the past two years have been below inflation in the main manufacturing sectors. So far this year wage rises have been

held down to at least one percentage point below inflation, which has averaged 4.4 per cent a year. Exporters believe an agreement with the unions in July, which abolished the indexation of wages and linked rises to productivity, has introduced an important element of wage cost stability.

Lloyd's to study Bosphorus safety

By John Murray Brown

LLOYD'S Register of London has been commissioned by a group of western oil companies to study shipping safety in the Bosphorus.

Lloyd's confirmed it had been commissioned by unnamed US oil concerns to present findings on environmental and navigational safety by mid-December as western oil companies expanding in Azerbaijan and Kazakhstan seek Turkish government support for an early decision on the export route.

The latest move is apparently aimed at assuaging British concern at the dangers posed by the projected increase in tanker traffic.

Separately, a study by Murray & Fenwick of London commissioned by the Turkish-led shipping consortium concluded that limited increases in tanker traffic could be accommodated with a new radar system. The Turkish Transport Ministry has an outstanding tender for a computerised system, for which Marconi of the US and Thompson CSF of France have made proposals.

Texan to invest DM550m in new Berlin complex

By Judy Dempsey in Berlin

A PROMINENT Texan property developer will invest more than DM550m (£233m) in building a new office, hotel and residential complex in the heart of Berlin's cultural centre despite the federal government's repeated delays in moving the entire administration to the capital.

Hines Interests Limited Partnership, which has been responsible for complexes ranging from Postal Square, Washington, to the 30th Street Station, Philadelphia, will develop the area around the Gendarmenmarkt. Now east Berlin's cultural centre, it was the city's banking quarter before the second world war.

This is the first time Hines has moved into the European property development market. Mr Gerald Hines, its chairman, said Berlin provided "a unique opportunity. This is an untapped sector. It is also a crucial axis between eastern and western Europe. There is no other city which offers so much potential."

In addition to developing over 50,000 sq metres of property on 8,400 sq metres of land, the company has been chosen by Sony to design the interior of its new European headquarters on Potsdamer Platz, which straddled the eastern side of the Berlin wall.

Unlike other property developers who arrived in Berlin after the wall was pulled down four years ago this month, Mr Hines has not encountered big difficulties over outstanding property claims. Instead of dealing with each individual case, the company bought the entire property from the Senate, or government of Berlin, which in turn will compensate any claimants.

Since 1990, property developers have already invested DM11bn in this part of the Mitte, or centre of old Berlin. The other prominent developers include Tischman Spier, which is building a Galerie Lafayette shopping and office complex, and the American Business Centre-backed by Mr Ronald Lauder, heir to the US cosmetics magnate.

Germany wins Russian steel plant contract

By Quentin Peel in Bonn

A GERMAN consortium headed by the big plant contractor SMS Schloemann-Siemag has won the contract for a DM1bn (\$604m) steel plant at Magnitogorsk, in the heart of Russia's Urals steel industry. The cold reduction mill will have a capacity of about 2m tonnes of sheet metal a year, and will come into production at the beginning of 1997, according to an announcement from SMS company headquarters in Düsseldorf yesterday.

The 10-member consortium includes Siemens, the engineering conglomerate, Hochtief, the Essen construction company, and MAN Gutehoffnungshütte, as well as Magnitostroy, the construction company in Magnitogorsk.

The contract is worth DM300m to SMS, which has just announced a 54 per cent

drop in profits for 1992/93, to DM32m on a turnover of DM1.963bn, because of the worldwide slowdown in investment plans, especially in the steel industry.

The company is involved in three other big projects in Russia, including another cold reduction mill (with Siemens) at Novo-Lipetsk, the modernisation of a hot rolling mill at Novo-Lipetsk, and the modernisation of an aluminium plant at Samara.

A spokesman said yesterday that the contract was on a cash basis, and would be financed by revenues from steel exports of the Magnitogorsk Metallurgical Kombinat (MMK).

It does not have any export credit guarantees from Hermes, the German export credit agency.

With production capacity of 16m tonnes and a workforce of 65,000 people, MMK is one of Russia's biggest steel makers.

Speed up talks, says Gatt director

By Frances Williams in Geneva

MR Peter Sutherland, director-general of the General Agreement on Tariffs and Trade, yesterday urged the 116 nations taking part in the Uruguay Round of trade liberalising talks "to speed up progress in the negotiations" in order to conclude the round by the agreed deadline of December 15.

Pointing out that there were only 45 days left, he told the top-level trade negotiations committee that he believed it was "still within our grasp". However, he warned against leaving too many unresolved issues on the table for the final phase of the negotiations.

Talks on improving access to markets for farm and industrial goods have made slower progress than hoped.

Mr Sutherland said there had been some positive moves over the past month but criticised the "lamentable failure" of the Quad nations - the US, the European Community, Japan and Canada - to nail down the details of the tariff-cutting package agreed in principle in Tokyo last July.

He said the Quad, especially the US and EC, had a particular responsibility to provide leadership in the market access negotiations.

"Mutual recrimination is neither useful nor helpful," he added.

Trade officials present at the meeting said a number of delegations had also lambasted the US for creating other difficulties in the negotiations.

They were particularly critical of Washington's intention to take a blanket exemption for taxation under the proposed services accord, which would allow it to discriminate against foreign companies in tax matters in breach of fundamental GATT principles.

The US also came under fire over financial services, where it plans to bar Japan and developing countries from improved market access to its banking and insurance markets, and over its opposition to a strong Multilateral Trade Organisation to succeed GATT.

Under the present negotiating schedule, the hope is still to have "a well-defined approximation of the content, size and final shape of the overall market access package by November 15", alongside revised texts on the WTO and disputes settlement.

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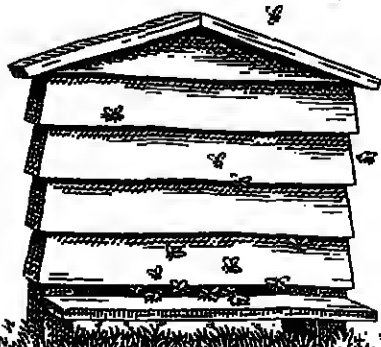
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THE SLOVAK REPUBLIC

Tuesday November 2 1993

Slovaks were wary when their 74 year-old "marriage" with the Czechs ended peacefully at the start of 1993. Now caution has been replaced by a quiet determination to succeed.

Anthony Robinson describes the new Republic's problems and prospects

Adventure in statehood

ON New Year's day, 1993, Slovaks sloughed off a thousand year subservience to Hungary and seven decades as the junior partner in Czechoslovakia and celebrated the birth of a sovereign, independent, internationally recognised republic.

But only six months earlier most Slovaks went into the crucial general elections of June 1992 intending to negotiate a new and looser union with their richer and more numerous Czech cousins, but not to be divorced from them.

Opinion polls showed that divorce was only sought by a small minority in both the Czech lands and Slovakia.

Many Slovaks were in favour of seeking greater political and cultural autonomy, but fewer than 10 per cent voted for the openly separatist Slovak National Party (SNS). The 600,000 ethnic Hungarian minority was virtually unanimous in opposition to breaking ties with Prague as were the less politically organised Gypsy, Ukrainian, Ruthenian and other minorities living mainly in the east and south of the country.

But the election results put political power into the hands of politicians with incompatible ideas about acceptable terms for cohabitation in a common state. The Czech leader, Mr Vaclav Klaus, made

clear from the outset that a clean divorce was preferable to a messy, protracted squabble over the terms of cohabitation. As the Czechs were the richest and the most populous members of the 74 year-old Czechoslovak state Mr Klaus was able to determine the subsequent course of events.

Mr Vladimir Meciar, the pugnacious Slovak leader who turned his Movement for a Democratic Slovakia (HZDS) into the dominant force in Slovak politics by his attacks on Czech arrogance and insensitivity to Slovakia's needs, found himself with no alternative but to negotiate the best terms for divorce.

In contrast with Yugoslavia, where the number of states, nationalities and cultural and ethnic groups involved was much greater, and where past violent conflicts over borders and between groups had left indelible scars, the Czech and Slovak divorce negotiations were tough but amicable.

But a mere 10 months of separate existence have already brought about palpable changes in perspective. On both sides of what is now an international border between the two states apprehension about the possible unforeseen consequences of separation has been largely replaced by a determination to make independence work. Both states

insist on their European vocation and their desire for the fastest possible integration into a suitably extended European Community and revamped Nato.

A young Slovak diplomat from the east of the country, the part which was most opposed to the idea of rule from Bratislava and gave the lowest votes to Mr Meciar, summed up the reaction of many of her generation. "We did not want to be cut off from Prague and the Czech part of our country. We felt nervous about being alone in this part of the world. But now I am amazed to find how little we have in common with the Czechs and how tied up we are in trying to solve our own problems here in Slovakia."

For Prague, the divorce meant the end of an implicit economic subsidy to Slovakia, at the cost of a 30 per cent loss of trade between the two new states. It also freed the Czechs from entanglements inherited from the inter-war republic whose borders were drawn to include a large Hungarian minority at the end of the first world war.

For Bratislava, independence promised the psychological and spiritual satisfaction of permitting the majority ethnic Slovaks the opportunity to develop and assert their own national personality at home and abroad after a millennium as a largely ignored or subservient people.

But it has required an enormous effort to build up the institutions and trappings of a sovereign state. For more than 70 years many of the most able Slovaks moved to senior jobs in Prague, and few were prepared to return to Bratislava to create a new state, especially under the political conditions created by the HZDS victory in the elections.

In spite of the difficulties, however, Slovakia now has an independent central bank, a national currency (hastily introduced in six weeks instead of the expected six months after the divorce), a national army and security forces and diplomatic representation abroad. It has obtained international recognition and



Slovaks celebrate the constitution of their new Republic: a bloodless addition to the European family

membership of a wide range of international institutions, including the IMF, the World Bank and the EBRD. It has also signed a separate association agreement with the EC and gained membership of the Council of Europe, after the last minute withdrawal by Hungary of objections linked to the rights of ethnic Hungar-

ians. Both economically and strategically, however, the new Slovakia inherited substantial real and potential problems. Already hard hit by the collapse of Comecon markets and the end of the Cold War, the disintegration of the highly integrated Czechoslovak economy has led to a sharp drop in trade with the Czech republic

at a time when recession in western markets has reduced the already limited ability to shift to OECD markets. Unemployment is high and foreign investment remains low while the pre-divorce wave of Czechoslovak privatisation has not been followed by a similarly determined all-Slovak version. Without rapid privati-

sation and higher foreign investment Slovakia's ability to build a less energy and raw material intensive economy more attuned to international trade will remain in doubt.

The potential certainly exists for a successful transformation of the economy, given the high level of technical skills and current low wage rates. In the service sector tourism also has good prospects, once the unfriendly, rigid state hotel structure is replaced by small scale private and local tourist initiatives. This year Slovakia is expected to earn only \$300m from tourism, a fraction of what could be earned by creative exploitation of a rich natural endowment which includes the high and low Tatra mountains, much untouched countryside and a plethora of castles, churches and cultural treasures.

A lot depends on Slovakia's ability to project itself properly as a peaceful, stable, democratic country, at ease with its neighbours and not only open to foreign investment but able to create the banking, legal and institutional framework that potential investors can feel familiar with. This is not always the case and some small investors have found difficulty seeking redress for alleged irregularities.

But the main question hangs over Slovakia's ability to forge a mutually satisfactory relationship with Hungary. This is highlighted by the dispute over Slovakia's unilateral decision to go ahead with completing the Gabčíkovo dam on the River Danube, and irritating resistance to the ethnic Hungarian minority's desire for dual Hungarian-Slovak place names in areas of Hungarian settlement and the right not to use the Slovak suffix added to female Hungarian surnames.

The dam issue, which aroused greater passions in Hungary than merited by the controversial ecological issues alone, is currently under adjudication by the International Court at the Hague. The Slovak side points out that it was Budapest which first acted unilaterally by

pulling out of the joint scheme. Mr Josef Moravcik, the foreign minister, also compares the high degree of cultural and linguistic autonomy enjoyed by Slovakia's Hungarian minority with the assimilation pressures to which ethnic Slovaks have been subjected in Hungary.

Wise heads in Bratislava have tried to defuse potential tensions by quiet diplomacy, fearing that the intemperate words sometimes used by Mr Meciar when referring to both the Hungarian and Gypsy minorities could inflame passions and contribute to the re-ignition of latent ethnic tensions throughout the wider Carpathian region. The rise of nationalist parties in Hungary and Romania underlines the risks involved in playing the ethnic card.

Opinion polls indicate that Mr Meciar still retains a core following in his home territory of central Slovakia, in the scenically attractive villages of the Vah valley and the Tatra mountains. These are the areas economically hardest hit by the collapse of the arms industry and the loss of Comecon markets on which Slovakia was so heavily dependent before the death of the Soviet system.

It is far harder to find supporters in Bratislava, the capital which is tucked away at the extreme south west of the country, only 65kms from Vienna, or in Kosice, the regional capital of eastern Slovakia, even though unemployment and the attendant social pains are lower in these two big cities.

Mr Meciar may not be the ideal politician to lead Slovakia into independence, but his latest deal with the Nationalist Party (SNS) should give him the parliamentary majority needed to get next year's tough budget approved and fight off left wing opposition demands for early elections. The international financial institutions are helping to fund investment projects, pending the hoped for awakening of foreign private investment.

The next years will not be easy. But independence seldom comes cheap.



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THE SLOVAK REPUBLIC II

Foreign investors study pace of privatisation, reports Patrick Blum

Austrians head the queue

SK70bn. Furthermore, voucher privatisations will only take place in the third quarter of next year. Until then the government will seek to sell as many companies as possible by direct sales and public tenders.

"Voucher privatisation resulted in too great a dispersal of shareholders with small stakes who are not always committed to further investment in their companies," Mr Laza says in his report. "There was just a change of ownership, but it brought nothing to the state or the companies. With the second wave we aim to accelerate restructuring. Slovak industries need new technologies and they must modernise their production. This requires a lot of money and can only be done with foreign capital," he says.

The importance of attracting foreign investors is underlined

by the shortage of capital of the Slovak banks which exhausted their funds in the first wave of state disposals. Foreign investors will be able to buy up to 100 per cent of a company's shareholding, and benefit from a wide range of tax and other incentives. But the authorities will seek a commitment by investors to further investments to modernise and develop their companies.

Mr Laza says interest has picked up this year after a slow start. "In 1992, and early 1993, opinion about Slovakia was not favourable. We were seen as backwards and politically unstable, but since then the IMF, the World Bank and the EBRD have helped to give us recognition. We are also much more active at targeting investors abroad, and people are getting a clearer picture of opportunities in Slovakia."

Officials are trying to market

Slovakia as a convenient production and trading centre with a relatively good transport infrastructure and good access to both western and eastern markets. Telecommunications which are currently very poor, especially inside the country, are being upgraded through an Ecu227m modernisation programme. The European Bank for Reconstruction and Development (EBRD) is providing Ecu44m and Slovak Telecommunications Ecu122m with the remaining Ecu51m coming from export credit agencies.

The project will improve services for 414,000 existing customers and bring in 200,000 new subscribers. By 1995 all main cities should have a digital telephone network. Bratislava will be equipped with a combined local, transit and international exchange and be the focus of a nationwide optical fibre backbone system.

A recent EBRD study of some 400 small-to-medium size Slovak companies with 500-1,000 employees, identified more than 50 with good prospects for potential investment in a wide range of sectors. "People are finding much greater scope for investment than they expected," a western consultant says.

The EBRD, which is playing a catalytic role in attracting foreign investment to Slovakia, is considering investing Ecu10m in a proposed Ecu20m fund to invest in such companies. It will work alongside the European Community which plans to put up Ecu5m through its Phare programme, with the rest coming from elsewhere.

The EBRD is also providing a total of \$125m for the completion of a new aluminium smelter at Ziar nad Hronom. Over \$185m had been spent on

the 65 per cent finished plant before construction was suspended five years ago because of lack of funds. The new financing will allow the plant to be completed with the installation of state of the art technology from Norsk Hydro which is also taking a \$15m equity stake in Slovakia, the operating company. The EBRD is also taking a \$15m stake in the company, but the bulk of its commitment is a \$100m loan which will be used to finish construction, buy the equipment and also close down the existing, heavily polluting,

further \$25m investment at Bratislava.

The close proximity of Bratislava to Vienna - just over an hour's drive away - has encouraged Austrian investors, including Siemens' Austrian subsidiary. With more than 1,000 Austrian companies established in Slovakia and \$78m invested, Slovakia's western neighbour has both the largest number and volume of investments, representing about 30 per cent of total foreign investments. Complex negotiations are continuing with OMV, the Austrian energy group, which is seeking an important stake in Slovnaft, the Slovak oil and petrochemical company.

More than 1,000 Austrian companies are established in Slovakia

Other investors so far include Volkswagen, with a \$12.5m investment in an assembly plant near Bratislava for its Passat model; K-Mart of the US with a \$30m investment in the Prior retail chain stores; Rhône-Poulenc (\$20m); and Samsung (\$11m). Volkswagen is reported to be planning a

With Austrian plans to upgrade transport and rail links between Bratislava and Vienna, Austrian investment is likely to continue to grow. The Austrian commercial office in Bratislava says that in the first half of the year it has had some 7,000 inquiries, two-thirds from Slovak companies seeking foreign partners. These developments offer hope for an economy in its fourth year of deep recession.

Faster privatisation is one of the keys to more foreign investment

programme was launched in 1992, but it is only being completed now because of delays caused by the division of the former Czechoslovak state.

As with the neighbouring Czech Republic, Slovakia's voucher privatisation was considered a success by western analysts, and a second wave of voucher privatisation is planned for next year. But the government has shifted emphasis, intending to resort more extensively to standard methods of privatisation.

THE collapse of traditional markets in the former Comecon trade bloc was felt more acutely in Slovakia than in most of its neighbours.

Short of raw materials and energy sources, and with many of its highest companies geared to serve highly specialised markets for heavy engineering products in central/eastern Europe and the former Soviet Union, Slovak industry faces an uncertain future without steady investment beyond the capacity of local resources.

With only about \$320m disbursed since 1990, Slovakia has attracted only a tiny share of foreign investments in the region. But interest is growing, especially from neighbouring Austria, and more investments are said to be on the way.

Faster privatisation is one of the keys to greater foreign investment. But the sacking of Mr Lubomir Dolgos, the former privatisation minister, without a replacement being appointed has raised questions about the commitment of the government to recovering the momentum lost after the divorce from the rapid privatisation-orientated Czechs.

Government officials dispute the complaints of opposition parties and businessmen that privatisation has ground to a virtual halt after the first round of coupon privatisation which was set in train while Slovakia was still part of Czechoslovakia. "We believe we should privatise more quickly as it is a basic prerequisite for restructuring our economy," says Mr Ivan Laza, state secretary in charge of privatisation.

He rejects criticism that the privatisation process has been slow and prone to bureaucratic delays. "Speed is relative. Seen

Shares in Slovak companies may also be floated on the Prague and Vienna stock exchange once company accounting has been harmonised with Austrian requirements, says Mr Laza.

The new privatisation programme provides for the planned sale of 600 companies with a book value of about SK210bn (\$7.2bn) of which voucher sales will only account for assets worth SK50bn.

Economy has a weak base, say Patrick Blum and Anthony Robinson

Comecon's unhelpful legacy

THE economic basis for Slovakian independence is shaky.

Czechoslovakia as a whole was deeply integrated into the Comecon and Warsaw pact system, but Slovakia with its concentration of heavy engineering and arms plants as well as large scale shoe, textile and other consumer goods factories, was much more orientated towards the east than the more variegated Czech economy. Slovakia therefore suffered more from the break-up of the old Comecon trade links and the collapse of military orders which followed the end of the Cold War and Prague's post "velvet revolution" dictum about the immorality of the arms trade.

Slovakia's historical development as a supplier of steel and semi-finished components for finishing and sale in the Czech republic has also made it more vulnerable to the collapse in bilateral trade which followed the division of the country and the disintegration of the 74-year-old Czechoslovak economy. The Czechs, with their geographical proximity to western Europe and experience in selling finished products, have found it much

easier to switch to EC markets, especially Germany.

Coping with these two severe shocks - the loss of the Comecon and then much of the Czech market - in quick succession has been traumatic. A return to economic growth is not likely before 1995.

The scale of the problems is illustrated by a single statistic - since 1989, Slovakia's gross domestic product has declined by 30-40 per cent. The arms

industry has been decimated; agriculture, accounting for about 20 per cent of GDP, has been severely disrupted; and service industries such as tourism have also suffered from the inadequacy of the existing facilities to cater for western tastes.

In the first six months of the new state's existence Slovak GDP fell by a further 6.3 per cent compared to the same period in 1992 while unemployment rose to 12.5 per cent of the workforce. Inflation rose to 14.2 per cent.

Officials say the introduction of value added tax last January added about 9 per cent to inflation, while a 10 per cent devaluation in July, and additional tax increases introduced during the summer, will have a further negative impact on the consumer price index. Inflation is now forecast to rise to around 25 per cent on an annual basis by the end of the year. Over the whole year GDP could fall by 8 per cent.

Next year the government hopes to reduce inflation to around 15 per cent, but expects the economy to continue to contract. The GDP is expected to fall by a further 3-4 per cent in 1994 while unemployment will rise further to around 20 per cent. A resumption in growth is not expected until 1995.

On the positive side, imports and exports are now roughly balanced at an overall lower level, and the current account is expected to show only a small deficit this year of around 1-1.5 per cent of GDP, according to Mr Marian Jusko, deputy governor of the National Bank of Slovakia. Foreign debt - both public and private - stands at a relatively

low \$2.78bn, due partly to a successful \$240m bond issue raised in September and \$500m borrowed from the International Monetary Fund as the first tranche of a \$180m structural transformation facility agreed in the summer.

Thanks to foreign borrowing and balanced external accounts the National Bank's foreign exchange reserves, which fell to below \$140m in February when the currency union with the Czech Republic came to an abrupt end, rose to \$660m by mid-September. Total foreign assets held by commercial banks and the National Bank, including gold, rose to \$1.67bn. The long expected devaluation of the Slovak Koruna in July has helped.

Officials say there is no need for further devaluations, but independent analysts say this will depend on maintaining tight monetary control. The authorities are aware of this. The national bank is keeping a sharp daily watch on government revenues and expenditures to ensure that the government keeps to its July agreement with the IMF to keep the deficit to within a SK14bn-16bn range, representing about 5 per cent of GDP.

But with revenues slashed by the recession, insufficient manpower to collect taxes, and rising expenditure on unemployment benefits, the authorities will be hard put to keep to the target. The size of the social security budget is a particularly onerous constraint.

About one third of this year's SK188bn budget will be spent on unemployment benefits, health and other social benefits, compared with an OECD average of 9/10 per cent. Reducing this burden is politically difficult.

Officials believe the government will manage to keep to this year's deficit target, and will be able to decrease it next year as national insurance is taken off-budget as part of a broader reform of government finance and improvements in tax collection. Higher income

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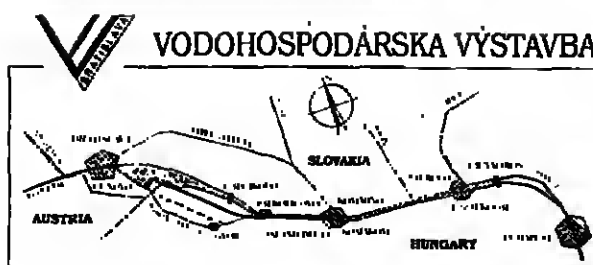
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Gabčíkovo - a year's experience

The Gabčíkovo part of the disputed Gabčíkovo-Nagymaros Project on the Danube has been operating successfully for a whole year. This period is long enough to verify the function and safety of the main structures and sufficient also to provide assurances about the development of impacts on the surrounding nature, ground waters, agriculture.

None of the foretold catastrophic impacts has been proved as true. Of course, it is not by chance. The certainty with which the builders of this project proceeded with its implementation, stemmed partly from the knowledge of local conditions and partly from precautions taken against undesired developments.

There are still conditions on the right bank of the Danube which are not satisfactory. The professionals know very well, not only how to compensate the diminished flow, but also how to improve them to a better than "median" state. The necessary measures form a part of the Hungarian share of work on the Project and the Slovak offer to implement them, was not accepted. It can only be hoped that a more realistic approach, represented by the opinion of Hungarian professionals, will eventually be adopted.

The year in review:

- Significant improvement of flood safety has been achieved in the whole Gabčíkovo section, on both banks of the Danube.
- The navigation parameters in the section of the Danube between Bratislava and Pálkövöcs are being improved according to the recommendations of the Danube Commission, but the downstream section is still in bad condition, with uncertain perspectives of improvement without the second river-step.
- The Gabčíkovo hydro-electric power station produced nearly two billion kilowatt-hours of electric energy - but only of the basic quality of run-of-the-river power. Generation of peak-power and reserves of regulation services was impossible without the stilling basin of Nagymaros, where the energy of this section of the Danube remained undeveloped.
- The year-long harmful process of riverbed erosion was stopped - but only

The banks have been organised at top speed, writes Patrick Blum

A model from Frankfurt

THE creation of viable banking and financial institutions has emerged as a top priority throughout the former communist world. But in Slovakia this has entailed the additional burden of creating a new central bank at the apex of the system which unexpectedly had to assume the additional task of introducing and managing an independent national currency.

Finding staff at all levels with the necessary experience and knowledge of modern central banking principles, including the vital supervisory functions, has been complicated by the fact that before the divorce central bank functions were concentrated in Prague.

"The federal state had its administration in Prague. The whole of the state machinery stayed in Bohemia after the

split. Very few Slovaks worked in important positions in Prague, and most of them stayed there. We had to start from scratch and this inevitably had an impact. That is the price we had to pay for independence," says Mr Jozef Magula, head of the finance ministry's financial and economic policy department.

What is more, the new central bank had to be established and personnel had to be found for a wide range of state institutions including the finance ministry in competition with the banks and a new stock exchange, not to mention private companies.

Before the divorce on January 1 the central bank's presence in Slovakia was limited to a small branch of the State Bank of Czechoslovakia in Bra-

tislava. The newly founded Slovak National Bank (SNB) struggled to get organised in the weeks following the breakup of the federation. It received help from the British know-how fund and the Austrian National Bank which provided training courses for staff, many of whom had little experience.

Few Slovaks had senior posts in Prague, and most have stayed there

ience. Only one of 10 senior employees working in the federal bank came back to Bratislava - and became head of the SNB's dealing department.

As if these handicaps were not enough, the bank was soon put through its paces with the collapse of the currency union with the Czech Republic in February, accompanied by a run on reserves. As originally conceived, the two countries planned to run a joint currency for at least six months after the divorce. But the precipitate drop in bilateral trade as the frontiers were established accelerated the need to establish a new independent currency under strong pressure from the markets, and the IMF, to devalue. These pressures were resisted until July.

As the first year of independence draws to a close the dust is beginning to settle, and the central bank is looking forward to a more stable environment. But Mr Marian Jusko, deputy governor, says that only five of eight positions on the bank's ruling council have been filled. The total number of employees, however, has

doubled from the initial 200 to more than 400.

In principle the central bank enjoys an independent status modelled on the German Bundesbank. This is enshrined in its founding statutes and last July's devaluation was formally decided by the central bank rather than the finance ministry which had taken the lead in resisting devaluation pressures for seven months.

The bank's principal tasks are to maintain control over monetary policy and inflation, to ensure currency stability, and to supervise the banking system.

For their part, the commercial banks are having to learn to live with tight supervision and growing competition. They have had more time to adapt than the central bank during three years of radical reforms that began in 1990.

As in the Czech Republic, the pace of change has been dramatic, transforming the banking system beyond recognition from its former role as a conduit for money distributed under a central plan into a western style financial sector.

The number of commercial banks has grown from two in 1991 to 26 today, with new specialised financial institutions including 17 universal banks - six of which have foreign currency licences - and nine foreign bank branches.

Foreign institutions represented in Slovakia include the Credit Lyonnais, and Banque Paribas of France, Creditanstalt and Oesterreichische Volksbanken of Austria, and the Internationale Nederlanden Bank of the Netherlands, as well as others.

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VLADIMIR MECIAR will take his place in the history books as the man who led Slovakia to independent statehood, writes ANTHONY ROBINSON and PATRICK BLOM.

But 11 months after jubilant crowds ushered in the Slovak republic, the stocky 51-year-old Prime Minister's opinion poll rating is languishing as doubts accumulate over his ability to lead this nation of 5.3m towards a prosperous, secure and democratic future.

Last month, in an ornate, gilded room in the former Archbishop's palace which now functions as the seat of government, Mr. Meciar parried questions about his ability to retain loyal support and political allies, his attitude to ethnic minorities and more powerful neighbours, his prospects for the economy and his vision of Slovakia's future.

On the hustings he jabs the air with his finger, cracks jokes and extracts belly laughs from the crowd. In private he is extraordinarily immobile, big but not tall, with a strong handshake and expressive face in which only his eyes seem to move. During 30 minutes of conversation there were no flashes of inspiration, no vivid phrases, no clear vision of the future Slovakia. Just flat words.

"We have four priorities: to establish a democratic system and democratic institutions; to introduce market mechanisms; guarantee the security of the state and ensure integration with the European Community," Slovakia, he adds, is in transition from one system to another "in the midst of a dangerous river and moving from one bank to another". It might take five years

Profile: VLADIMIR MECIAR pioneered Slovak statehood – now he must make it work

Odd man out with a will of steel

to get to the other side, he adds.

Buoyed up by the strong showing of the former communist-era parties in the recent Polish elections, the Party of the Democratic Left (SDL), led by the youthful Mr. Peter Weiss, is pressing for early general elections and hoping to administer the coup de grace to the current prime minister and his demoralised HZDS.

Is Mr. Meciar worried by the left-wing threat? Would he be prepared to become, say, Minister of Transport in a future coalition government led by the former communists in which the HZDS was relegated to a junior role?

He is not amused by the question. "All this talk of elections is premature. If there are to be elections I will decide the timing, and the results will not turn out as my opponents think. The HZDS is a pragmatic, non-ideological party of the centre. It is true we are under attack from left and right, but we are a stabilising factor in Slovak politics."

"At the last election my opponents accused me of being an SSB and a KGB agent and a rapist of small children, but my party went on to become the largest party with 38 per cent of the vote and we formed the government, not them."

His reply revealed the kind of steel will to power which his various political oppo-

nents have underestimated at their peril before. Mr. Meciar has shown in the past that he is never more dangerous than when his back is against the wall. A former close political aide describes him as "a genius at outmanoeuvring his rivals, a player without rules who cannot tolerate peers and is driven by his complex personality into a confrontational approach both at home and abroad."

Appointed as premier of the Slovak part of the Czech and Slovak Federal Republic after the June 1990 elections, he was deposed nine months later when he lost a vote of confidence in the Slovak parliament. Behind the vote lay dislike of his authoritarian ways among the liberal and Christian Democratic members of Slovakia's People against Violence, the anti-communist equivalent to the Czech Civic Forum, and disquiet in Prague at the increasingly separatist tone of his pronouncements.

Deprived of power, Mr. Meciar became an implacable foe of the new government led by Mr. Jan Carnogursky, and whipped up growing popular resentment against both the "morally superior" attitudes displayed by the federal President, Mr. Vaclav Havel, and the Bratislava government which he portrayed as unable to stand up for Slovak economic and political interests.

As unemployment in the Slovak arms factories and other big plants dependent on Comecon trade soared to four times the Czech level, the tireless Meciar barnstormed the country, whipping up nationalist fervour and promising to raise Slovakia's status in the world, complete the controversial Gabčíkovo dam project on the River Danube and improve the economic and moral wellbeing of its people.

Portraying himself as a martyr sacrificed on the altar of Czech arrogance and Slovak government weakness, the one-time boxer and largely self-educated enterprise lawyer, reached a peak of popularity at the general elections of June 1992 after addressing packed crowds in pre-election meetings.

After his first post-election meeting with Mr. Vaclav Klaus, the victor in the Czech elections of the same date, it became clear that the self-assured, fanatically pro-market Czech leader preferred a quick divorce from Slovakia to endless recriminations and a loose confederal arrangement which would have left the Czech republic footing much of the bill for Slovakia's greater internal autonomy and higher profile abroad.

Both men had a unique opportunity to appraise the other. Whatever his private thoughts Mr. Klaus has taken care never to criticise his Slovak counterpart in personal terms, and makes it understood that, whatever his reservations, he fears that whoever comes after Mr. Meciar could well be worse.

Mr. Klaus, who has a Slovak wife and campaigned for Slovak votes during the 1992 election campaign, recognised that Mr. Meciar faced a harder task, with far fewer resources, in building his new state.

The Slovak leader acknowledges that "founding the new state brought many problems. The Czechs started preparing the technical basis for the divorce in January 1991 but Slovakia only began from July 1992. While the Czechs inherited the federal institutions there were no equivalent

to these Prague based institutions in Slovakia." At the same time the divorce left the new Slovak state with a legacy of over-sized arms, heavy engineering and consumer goods factories orientated towards the defunct Comecon market.

Since January, he points out, the government has gained international recognition, joined a raft of international institutions, including the IMF, World Bank and



Meciar: we're crossing a dangerous river

EBRD, set up a new independent central bank, created a separate national currency, and forged a national army.

But, after recounting the achievements of the last few months, Mr. Meciar complained that all this had been done against the background of what he described as "a campaign of hatred against Slovakia and a wave of hostile propaganda which assaulted Slovakia and its official representatives". When questioned about Slovakia's image, however, Slovak diplomats ruefully concede that in many cases the problem has been created by Mr. Meciar's own abrasive style. The issues which have provoked most international criticism include the unilateral decision to go ahead

with completion of the Gabčíkovo dam despite Hungarian objections, and insensitivity to the human and other rights of ethnic Hungarian and gypsy minorities. These are all complex issues with no easy solution. They cry out for quiet diplomacy and a search for reasonable compromise.

But subtle diplomacy and a desire for compromise are not easily associated with Mr. Meciar's confrontational approach to political problems. Like most of the grey men in his cabinet and Mrs. Anna Nagyova, his blonde special adviser on international as well as domestic issues, Mr. Meciar speaks no foreign languages, apart from the closely related Czech and a smattering of Russian. But he insists on representing Slovakia abroad whenever possible.

In an international setting he always looks the odd one out, even among a gathering of fellow leaders from post-communist Europe. At this year's annual international get-together in Davos, Slovak diplomats watched in despair as the Mr. Meciar and his group sat talking among themselves in Slovak as other leaders split into ever-changing informal groups exchanging gossip and building informal ties.

At a recent summit meeting in Budapest of the Central European Initiative, the 10 nation grouping which includes Italy and Austria as well as eight central European states, the Slovak leader fiddled constantly with a recalcitrant translation machine as Mr. Klaus, the Czech leader, replied to questions in fluent German and English.

On his return from Budapest Mr. Meciar announced his intention to obtain new fighter aircraft from Russia to counter-balance similar purchases by Hungary, raising the prospect of a mini arms race between states with ethnic minorities on both sides of the border.

Mr. Meciar does not compare well with the founders of the original Czechoslovak state. Having led the move to independence he seems to lack the human and political skills needed to inspire Slovak citizens of all ethnic groups to make the best of their difficult inheritance. What is more, having won independence, he seems to understate the importance of building bridges in this potentially dangerous region for a small country with suspicious neighbours.

POLITICS

The centre is strained

THE victory in Poland of leftwing political parties with communist roots only four years after the collapse of communism throughout eastern Europe is leading to a reappraisal of political probabilities throughout the former communist world, writes ANTHONY ROBINSON.

The Polish left's turnaround has aroused particular interest in Slovakia, Poland's southern neighbour, where the Party of the Democratic Left (SDL), led by Mr. Peter Weiss, closely resembles Poland's Democratic Left Alliance guided by Mr. Alexander Kwasniewski.

In Poland, the election results were as much a defeat for the fragmented anti-communist parties of the Solidarity-era opposition as a victory for the re-packaged communist-era politicians.

There are similarities in Slovakia where the centre stage is tenuously held by the Movement for a Democratic Slovakia (HZDS). This movement, a loose alliance bound together more by the personality of Mr. Vladimir Meciar than any ideological cement, was formed in 1991 after the disintegration of Slovakia's "velvet revolution" alliance called People Against Violence (VPN).

To its left the HZDS is challenged by the neo-communists, to its right by the Christian Democratic party (KDH), led by Mr. Jan Carnogursky, the Slovak National Party (SNS) led by Mr. Ludovit Cernak, and smaller parties representing ethnic Hungarians.

But the ability of the HZDS to command the centre ground has been undermined by the inability of the government to deliver the promised economic recovery and growing disillusionment with the suspicious, combative personality of its leader.

The erosion of confidence in the HZDS and deep, often personal animosities, between leaders of the non-communist parties has inevitably rebounded to the benefit of the former communist SLD. Like their Polish counterparts, Mr. Weiss and key allies such as Mr. Pavel Kanis, the SLD dep-

uty chairman, have spent the last four years trying to shed the stigma of the Soviet-imposed communist past, and present themselves as a respectable, democratic party, eligible for membership in a future government coalition.

At the last elections in June 1992 the SLD already emerged as the second largest party with 26 seats in the 150 seat Narodna Rada, the single chamber Slovak parliament. The SLD was dwarfed by the HZDS which won 74 seats won but came out well ahead of the Slovak Nationalist Party (SNS), which was the only party to stand unambiguously in favour of Slovak independence.

The SNS won only 15 seats and agreed to become a junior coalition partner in the post-election HZDS-SNS government.

This government collapsed last March when Mr. Ludovit Cernak, the SNS leader, took his party out of the coalition after attacking Mr. Meciar for his alleged authoritarian style and his closeness to politicians

Stalinist memories are likely to deter a left-wing comeback

such as the Defence and Culture Ministers with shady political antecedents and ties to Czechoslovakia's Moscow-dominated past.

Last month, however, Mr. Cernak agreed in principle to take his party back into the government, mainly because his reluctance to risk early elections which the former communists might win proved stronger than personal and political antipathy to Mr. Meciar.

A renewed HZDS-SNS coalition, still to be finalised at the time of writing, would create a secure parliamentary majority and ensure passage of next year's budget. It would give a reprieve to Mr. Meciar whose shaky minority government has been dangerously weak since Mr. Milan Kucsko, a former actor who was a popular idol of the VPN movement in

KEY FACTS		
Area	49,035 sq km	
Population	5.3 million	
President	Michal Kovac	
Current (since Feb. 1993)	Slovak Crown (SK)	
Exchange rate (Czechoslovak crown)	1991 \$1=23.48 CSK	
	1992 \$1=26.29 CSK	
ECONOMY		
	1991	1992
Real GDP growth (%)	-15.8	-6.0
Annual average % growth in:		
Consumer prices (%)	56.0	10.3
Industrial production (%)	-25.4	-14.0
Convertible currency trade		
Current account balance (\$m)	n.a.	175
Exports (\$m)	n.a.	3,420
Imports (\$m)	n.a.	3,636
Trade balance (\$m)	n.a.	-205

(1) Until 1991, companies with more than 100 employees, (1) and from 1992, companies of all sizes.
(2) 1992 figures are estimates
Source: Deutsche Bank Research

1989, was sacked as foreign minister five months ago. Mr. Kucsko left the HZDS after fierce arguments with Mr. Meciar over policy towards ethnic minorities and neighbouring states. He has since formed his own breakaway party, the Alliance of Independent Democrats, with eight seats in parliament.

The new alliance patches up the government but does not reduce the underlying challenge from the former communist SLD or the risk of sharing the fate suffered by Poland's Solidarity era parties. But Slovakia does not share Poland's deeper political culture or its self-confidence as one of the historic nations of eastern Europe. The reform communists, who form the backbone of the Polish Democratic Left Alliance, were committed to reformist politics before being swept from power in 1989 and have been able to attract support from the new business class which has since emerged.

Slovakia has no so such self-confident past. The communists who ran Czechoslovakia in the Stalinist years and after the Soviet invasion of 1968 were, almost to a man, grey mediocrities who showed an insensitivity bred of ignorance to tradition and the environment.

Nowhere was the deliberate destruction of the creative and productive middle class more complete than in former Czechoslovakia which before the war, together with its large German and Jewish minorities, formed perhaps the most successful democracy in contin-

tal Europe. And the Slovak part of the old republic, singled out for investment in heavy industry, suffered the most.

Given this history, the risk of a return to power of parties with their roots in Slovakia's communist past is a sobering one. The men who lead the party seem bright and intelligent. But with Slovakia's slow record of reform to date, many of the old nomenklatura bosses are still running the various bureaucracies, the big state owned factories and the security forces. Several former communists are already in the HZDS government. It is difficult to escape the conclusion that once the reformed communists regained power in their own right it might be difficult to remove them.

Ironically the widespread sense that the former communists represent the most likely alternative to the HZDS, together with the personal rivalries and relative inexperience of the non-communist opposition parties, are the main factors keeping Mr. Meciar in power.

"Meciar is a confrontationalist. With him Slovak politics cannot be brought to the level needed to modernise the economy and society," says Mr. Igor Uhrík, vice-president of the SNS and one of a handful of expatriate Slovaks who have returned to contribute their skills and foreign experience to building up the new state. But Mr. Meciar is in charge, and while he remains that way he will be the one to choose the timing of the next election to his greatest advantage.

Bank sector's rapid growth

□ Contd. from facing page

well as banks from Germany, the Czech republic and Russia. At the end of June total subscribed bank capital was SK11.6bn with foreign participation of SK1.6bn.

Although legislation has been brought into line with western practice, Slovak banks continue to face difficulties in modernising their operations and introducing new technology and services.

There are other problems. The concentration of deposits with savings banks exacerbates a general liquidity shortage throughout the banking system and the economy. At the same time, doubtful loans to military and other state industries made under the communists are forcing the banks to sharply raise their bad debt provisions.

Mr. Jan Jansta, senior deputy chairman of Vseobecna Uverova Banka (VUB), the largest

commercial bank, says: "The problem is that no institutional investor or company is depositing money with any bank for a period of more than one year."

VUB was established on January 1, 1990, when the Czechoslovak State Bank was broken up to form new commercial banks. At the time it had 30 branches and about 65 per cent of the Slovak credit market. Since then the VUB network has expanded to 40 branches including one in Prague, and

130 small retail outlets serving more than 800,000 customers. Initially its customers were mainly state institutions. Now they represent less than 70 per cent of its portfolio and VUB, like other Slovak banks, must raise provisions for bad debts from both the state and the often shaky private sector.

Like a giant jigsaw puzzle, the pieces are slowly falling into place for Slovakia's young banking sector, but as the country moves towards a market economy, it faces a more urgent problem, Mr. Jansta says. "The greatest need is for new capital, not more banks."



SLOVAKOFARMA

This is Slovakofarma Hlohovec

Slovakofarma, Joint Stock Company, situated in the west Slovak town Hlohovec, is the biggest and the oldest enterprise for drug production in Slovakia. Its roots date back to the year 1941, when the joint stock company Slovenské alkaloidy was founded, a chemical plant for the processing of dry poppy-heads out of which morphine was isolated. The firm became a national company later on and for more than fifty years has developed a production programme of large-scale chemical substances and medicine forms. On 1st May 1992 Slovakofarma obtained the legal status of Joint Stock Company.

The main range of activities of Slovakofarma, JSC, at present:

- research, development, production, purchase and sale of chemical single and multiple component drugs, pharmaceutical and technical subsidiary substances, medicine preparations and drugs for human and veterinary use, cosmetic products, protective working armours, tooth-pastes, preparations for fertilisation and specific modification of feed-stuff,
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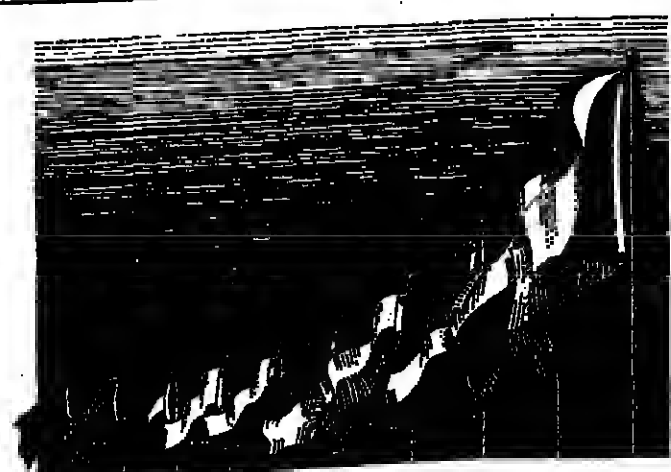
Ondrej Gattmar, PhD., General Director

Summary of the Year in Figures

In Slovak crowns mil.		
Year ended December 31,	1992	1991
Sales	2,267	2,082
Net income	209	171
Basic capital	1,291	1,291
Number of employees	2,048	2,290

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THE SLOVAK REPUBLIC IV

Anthony Robinson traces the tortuous road to Slovak independence

An amicable divorce

SLOVAKIA may be a state without a history, but the grounds for its divorce from the Czech republic have deep historical roots.

The disintegration of Yugoslavia and Czechoslovakia mark, in their very different ways, the liquidation of the last multi-ethnic compromise to survive the collapse of the Hapsburg and Ottoman empires 75 years ago.

In former Yugoslavia the principle of ethnic purity, absurd and tragic given centuries of intermarriage, is being pursued to its bloody end through the mass transfer of people accompanied by systematic rape and pillage. The emergence of separate Czech and Slovak states, by contrast, came about through a negotiated divorce and legal division of state property.

The underlying historical and cultural differences between the Czech and Slovak peoples are almost as great, or as small, as those between Serbs and Croats. The contrast is due principally to the total absence in the Czech and Slovak case of any tradition of violent conflict between two ethnically and linguistically linked peoples.

The re-emergence of Serbia has revived memories of the medieval Serb kingdom, subjugated by the Ottomans 500 years ago, while the rebirth of the Czech republic has restored, in essence, the King-

dom of Bohemia. The latter was assimilated into the Hapsburg Empire after the fateful battle of the White Mountain near Prague in 1618 at the outset of the Thirty Years War.

Slovakia and Croatia, by contrast, were both junior partners in their former federations and share a long history of domination by Hungary. While Croatia enjoyed periods of semi-independence, however, Slovakia was never a sovereign state, except as a Nazi puppet during world war two.

Slovakia, including its former large Jewish and gypsy minorities and smaller Ruthenian, Saxon, Ukrainian and other populations, remained under Hungarian domination for almost a millennium. Much of the sometimes almost hysterical tone of Slovak-Hungarian relations is inexplicable without reference to this past relationship.

The Slovak leaders who took their country into the first Czechoslovak republic after the first world war did so because they felt too weak to survive on their own. Even in 1919 they wanted Czechoslovakia to be a federal state in which Slovakia would have

Slovakia



enjoyed considerable autonomy. Only reluctantly did they accept the unitary state insisted on by Jan Masaryk and the Czech fathers of the republic, rather than risk a return to Hungarian rule.

It was a wise choice. In contrast with the 19th century, when millions of Slovaks had emigrated to America, or

sought work as masons and builders elsewhere in Europe, the inter-war years of this century enabled Slovaks to strengthen their economy and build up cultural and educational standards with assistance from Prague.

The Slovak search for recognition and cultural awareness took systematic form in 1883

with the creation of Matica Slovenska, the Slovak cultural foundation. But Slovaks found their nightmare come true in 1939 as Hungarian power moved back into eastern and southern Slovakia following Hitler's rape of Czechoslovakia.

Even Kosice, the second biggest city in Slovakia, passed back under the control of Hungary's crypto-fascist regime while nominal autonomy over the rump of Slovakia was given to a clerico-fascist regime led by Father Jozef Tiso. The spectacle of Hungary's Admiral Miklos Horthy riding on a white horse in triumph through the streets of Kosice cheered on by its ethnic Hungarians is still remembered by older residents and recounted to their children.

More than 80,000 Slovak Jews were deported to concentration camps along with unknown thousands of gypsies during the Tiso regime. Those who lived in the Hungarian occupied regions met the same fate in 1944, after Hitler seized power from Admiral Horthy and imposed direct rule on his former ally. As Soviet forces advanced from the east a sometimes bloody settling of scores took place. Thousands of ethnic Hungarians were deported from eastern and southern Slovakia, mirroring the expulsion of 3m ethnic Germans from the Czech Sudetenland.

During the war the Nazis built up Slovakia as a powerful centre of arms production. Central Slovakia in particular was out of range for allied bombers but conveniently close to the Russian front. As the Cold War developed and Stalin tightened his hold on Czechoslovakia after the Prague Coup of February 1948 the tightly centralised communist regime continued to invest heavily in big arms factories.

In the 1980s the East Slovakian Steel Works (OSZ) was built outside Kosice by Czech engineers with Czech equipment. The completed plant



Capital of an independent state: Bratislava on the Danube

used iron ore transported over 1,000km from Krivoh Rog in Ukraine. Its steel was needed for the arms industry and the other heavy engineering plants set up in what was still a largely rural country before the war.

The close integration of the Slovak economy with the Soviet military machine and

A rough start, but there is no turning back from attempts to join a wider European Community

the Comecon market was reinforced by construction of the Slovnaft oil refinery at Bratislava, the main terminal of the Družba oil export pipeline. Moscow's refusal to risk losing its strategic control by behind the crushing of the Prague spring in 1968 and the humiliating removal from power of Alexander Dubcek, the Slovak communist who endeared himself to Czechs and Slovaks alike by his espousal of "socialism with a human face".

Vladimir Meciar, the current prime minister, was among those purged from the communist party in 1968 as the Slovak apparatchik Gustav Husak was appointed by Moscow to "normalise" Czechoslovakia and create a phoney federal state which gave greater autonomy, but only on paper, to Slovakia.

After 20 years of "normalisation" the loose anti-communist coalition calling itself "People against Violence" celebrated the victory of the velvet revolution in Bratislava as its Czech counterpart, the Civic

Forum, spearheaded by the writer Vaclav Havel, celebrated the downfall of communism in the streets of Prague.

The superficial unity of both coalitions soon broke apart, however, accompanied by a bitter dispute over the economic impact in Slovakia of decisions made by high-minded politicians in Prague and over the name to be given the newly democratic Czechoslovak state.

For months debate raged over a hyphen. Was it enough, as most Czechs argued, to call the new state the Czechoslovak Federal Republic or was it to be called the Czech and Slovak Federal Republic. Behind the war of words nationalist and separatist emotions were whipped up by new politicians in both countries who sought new ways to identify themselves and their movements or parties.

The defining moment came with the elections of June 1992. Czechs voted for rapid market reforms and integration into Europe under the leadership of Vaclav Klaus while Vladimir Meciar's ill-defined nationalist-populist Movement for a Democratic Slovakia (HZDS) and the avowedly separatist Slovak National Party won the elections in Slovakia.

Since that date the two nations have moved rapidly apart. After six months of detailed, top level negotiations between the Czech and Slovak leaders and their closest advisers, the two nations formally divorced on January 1, 1993. Slovakia gained its sovereignty and independence under Mr Meciar, whose espousal of Slovak nationalism only really took off in 1991 after he was removed as premier of the first elected post-communist government.

Six weeks into independence the political divorce was followed by the division of the former common currency into separate Czech and Slovak crowns. Six months later the once invisible border was clearly demarcated, institutionalised and patrolled by armed border guards. Suddenly, and unintentionally, Slovakia found itself on the wrong side of what has become in effect an East-West border, thanks to a deal worked out by Bonn with its immediate neighbours, the Czech republic and Poland to help implement Germany's tougher new asylum laws.

It has been a rough start for the new Republic, made worse by a collapse in bilateral trade with the Czech republic, rising unemployment and recession in western markets. But, aware that there is no turning back, Slovaks have to press ahead with building their new state into a viable member of a future enlarged European Community.

Patrick Blum visits an unemployment blackspot

Unwanted tanks

IN A large industrial area on the outskirts of Martin, a small town lying on the foothills of the Lower Tatra mountains in picturesque north-western Slovakia, a sprawling group of factories is fighting for survival.

Martin, population 60,000, is home to ZTS, one of Slovakia's biggest companies and heart of the country's once thriving military-industrial complex. But military production, which represented about half of ZTS Martin's output, collapsed in the wake of the 1989 revolution that ended communism, and the company's future looks uncertain.

Turning the tanks made at ZTS Martin into ploughshares is more easily said than done. The decision taken in Prague during the heady days of the velvet revolution to abandon the "dirty" trade in armaments

has had a catastrophic impact on Slovakia's industry and economy, causing much local bitterness. Between 1988 and 1992, military production which accounted for about 32 per cent of the output of Slovakia's engineering industry declined by almost 90 per cent.

"It was the hardest blow," says Mr Jaroslav Kubecka, economy minister. "Armament production was virtually liquidated in the course of two years without any replacement."

At the time, around 40 major plants were involved in mili-

tary production. Many have been closed down, and some 60,000 jobs have gone, and many more in related industries.

Ironically, the decision that devastated a major part of Slovakia's industry has since been reversed in the Czech Republic whose government is now seeking export markets for its own military hardware. The Slovak authorities, who encouraged the conversion of military facilities to civilian production, now believe they can re-enter the market, albeit under much more difficult con-

ditions and on a smaller scale than in the past. It will not be easy. "No country in the world is able to rebuild all its main industries in two years. Restructuring requires enormous capital investment beyond the capacity of local resources," Mr Kubecka says.

ZTS Martin provides a striking example of the efforts and costs involved. In the 1980s, about half of military production in the former Czechoslovakia - which then ranked among the world's top 10 exporters of weaponry - and about 80 per cent of Slovak military production came from ZTS Martin which specialised in heavy equipment, notably tanks, most of which were sold to the former Czechoslovak and Warsaw Pact armies.

In 1988, the company produced military and civilian equipment worth SK1.4bn (\$500m) and had 12,000 employees, and made a SK1.6bn profit. Last year production was down to SK60m, its workforce was cut to 9,000, and it made an operating profit of SK32m, but this was wiped out by restructuring costs and mounting debts.

Mr Josef Skirko, the company's financial director, will not disclose the volume of debt, but says one third is primary debt and two thirds is caused by non-payment by customers. He says about SK1bn of the debt was the result of conversion.

The social consequences for the people of Martin have been dire. "Every family in town used to have a worker here," says Mr Skirko. The pain is not over. The company has borrowed SK2bn to modernise production lines to improve productivity and develop new products, but there have been more lay-offs since the beginning of the year. Short-time working has been introduced on some lines, and the marketing and strategy department closed recently to save costs. The buildings badly need repairing, and new markets are difficult to find

even for new products such as diesel engines produced under licence from Lombardini of Italy for sale only in former Comecon markets.

The agreement with Lombardini was signed in 1990 with production starting that year on existing lines. The objective was to manufacture up to 40,000 engines a year, rising eventually to 60,000. New equipment and machinery worth SK1.3bn was imported to develop a new production line which is now almost completely installed. Current capacity is 15,000 engines, but even that smaller number is proving difficult to sell as shown by the stocks of new engines lined up in the factory warehouse.

The ZTS company now produces a wide range of engines, is improving the range of its

The high minded decision to opt out of the arms trade has had a catastrophic effect

tractors, and producing bulldozers and loaders under licence from Hanomag of Germany with the hope of establishing a joint venture with the German company in the near future. Large engines of 1,000 horse power used in giant trucks are produced under licence from a French company while other products include forest tractors. Production of the latter, however, is down to about 150 a year, compared with exports of more than 1,000 such tractors a year to the former Soviet Union.

Overall, military production at ZTS Martin declined from SK10.3bn in 1988 to SK2.7bn last year, but production of the heavy T-72 tank and other armaments had resumed. "As far as we could see, other countries including members of the Conference on Security and Cooperation in Europe continued to sell their armaments, and nobody really helped us to convert our factories. We think we should do what we are able to do, though the situation now is more difficult because we have lost our former markets to competitors," Mr Skirko says. Foreign interest in the T-72 tank remains high, especially from potential third world buyers with little cash.

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Employers must justify unequal pay



The European Court of Justice ruled last week that the equal pay provisions of the EC treaty require employers to demonstrate objective justification of the existence of appreciable differences in pay between male and female workers doing work of equal value.

The Court's ruling was made in a case referred by the English Appeal Court involving a female speech therapist, who brought an action against her employers for sex discrimination.

Mrs Pamela Enderby claimed that her pay, in a profession that is overwhelmingly staffed by women, was less than that for members of comparable professions, such as clinical psychologists or principal pharmacists, which are largely staffed by men.

The European Court of Justice was first asked whether employers were bound under the EC treaty provisions to justify objectively differences in pay such as those which had occurred in this case.

The Court said that, although normally the onus of proving alleged facts in support of a claim lay with the claimant, the burden should shift when it was necessary to avoid depriving workers, who appeared to be victims of discrimination, of any effective means of enforcing their rights to equal pay.

It then said that, in spite of the fact that the circumstances of the present case did not constitute *de facto* discrimination, they did constitute a *prima facie* case of discrimination.

Given that workers would be unable to enforce their rights to equal pay before national courts if evidence of a *prima facie* case of discrimination did not shift the burden to the employer of showing that the difference was not in fact discriminatory, the Court ruled that, in circumstances such as those of the present case, it was for the employer to show that an objective justification existed for the difference in pay.

The Court was also asked whether it was sufficient justification for the difference in pay if the rates of pay for the jobs in question had been decided by collective bargaining processes. It said

the fact that rates of pay had been decided by such processes did not preclude a finding of *prima facie* discrimination, where the results of the collective bargaining showed that two groups with the same employer and the same trade union were treated differently.

The third question asked by the English Appeal Court was whether or to what extent the fact that the differences in pay were attributable to a shortage of candidates for one job and the need to attract them by higher salaries could serve as objective justification for the pay differential.

The Court said that such a finding of fact was for the national court. However, it made it clear that, if the national court was able to determine what proportion of the increase in pay was attributable to market forces such as those suggested, the pay differential would be objectively justified to the extent of that proportion.

If, on the other hand, the national court had not been able to determine the particular proportion, then it would have to assess whether the role of market forces in determining the rate of pay was significant enough to provide objective justification for part or all of the difference.

C-157/92 Enderby v Frieschi Health Authority and health secretary, ECUJ ECJ, October 27 1993.

Application to reopen Commission merger proceedings inadmissible.

An application by third-party shareholders for the annulment of a decision by the European Commission refusing to reopen its merger proceedings in relation to a particular transaction has been ruled inadmissible by the European Court of Justice.

The Court said the applicants had failed to demonstrate that they were directly and individually concerned as required by the Rome treaty provisions.

The Commission's decision that the transaction between the two companies did not fall within the scope of the merger regulation did not of itself affect the substance or extent of the shareholders' rights.

T-38/92 Zinus Holding SA and others v Commission, CFI AG, October 28 1993.

EUROPEAN COURT CHAMBERS, BRUSSELS

English arbitration law, probably the best system in the world, is far from perfect. But it is made worse than it need be by the unjustified assumption of most arbitrators and lawyers that they are bound to follow the adversarial and predominantly oral procedures developed in the English civil courts.

This shortcoming, together with other orthodoxies which drive arbitration away from London to friendlier and cheaper shores, has been tackled in a draft arbitration bill drawn up by the Departmental Advisory Committee on Arbitration, chaired by Sir Johan Steyn, the Appeal Court judge.

If adopted, it would improve English arbitration law and make it more understandable. With those objectives in mind, the committee entrusted the drafting of the bill to a privately financed group (although it was revised by a parliamentary draftsman) and instructed it to follow the structure of Uncitral's Model Law of Arbitration, now followed by the legislation of 15 states.

Many of the substantive provisions of the bill would make English arbitration law more acceptable internationally. For example, recent decisions by the Court of Appeal have reversed the orthodox view that disputes as to whether a contract was invalid from its beginning always fell outside the arbitration clause. The Appeal Court decisions confirm that the arbitration clause is separable and survives an invalid contract. To make sure that this useful advance is not overturned by the House of Lords, the committee has included a separability clause in the bill.

Light in arbitration's obscure corners

A H Hermann examines the Steyn committee's draft bill

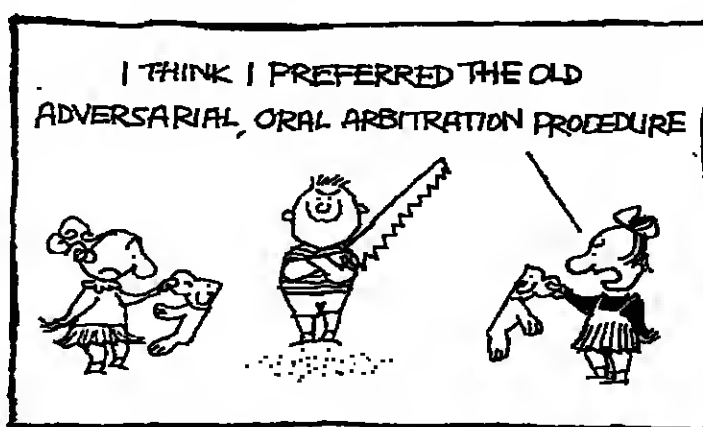
But the committee was not so daring when it came to the question of the arbitrator's power to decide that he has jurisdiction to hear a case.

The arbitrator's decision can always be appealed to a court. That is as it should be. However, the process is greatly abused by parties who wait to see whether the result of the arbitration is to their liking before launching an appeal.

A decision, at the end of a long arbitration procedure, that an arbitrator did not have jurisdiction makes the resolution of a dispute unnecessarily expensive. For this reason the Uncitral Model Law requires that any appeal against the arbitrator's exercise of jurisdiction must be made at the beginning. The committee, however, shrank from following the Model Law on this.

Explaining this and other aspects of the draft bill at the Freshfields arbitration lecture recently, Sir Johan, agreeing with a recent Law Commission report, said he did not see why arbitrators should be obliged to follow the courts' technical rules of evidence.

This was particularly true in relation to the labelling of technical and production records as "hearsay" evidence. Appellants without a proper issue of law on which to



base an appeal often argued that such records were "hearsay" and not admissible evidence, and that lack of evidence was an issue of law on which they could base an appeal.

The bill would avoid all this by providing that "the tribunal shall determine all procedural matters including the admissibility, relevance, materiality and weight of any evidence".

This provision of the bill also ought to do away with the widely held assumption of English arbitra-

tors and lawyers that they are bound to adopt the purely adversarial and predominantly oral procedures peculiar to common law jurisdictions but unknown in half the industrialised world.

Sir Johan said he could see no justification for such an assumption, either in statutory law or in precedent. If adopted, the bill would make the English arbitration procedure both faster and cheaper.

The committee did not, however, adopt any recommendation on the

crucial difference between the English and most other arbitration systems which allow awards to be made according to a perception of fairness or on the basis of internationally recognised principles of law. The orthodox English view is that arbitration clauses allowing the arbitrator to go by his conscience rather than by the law - clauses commonplace in civil law countries - are invalid in England.

Sir Johan appears to sympathise with the Model Law where it provides that, if parties agree, the arbitrator may decide according to what appears to him to be right and fair.

The Court of Appeal moved in this direction towards the recognition of the *lex mercatoria* - the free floating "international law of merchants" - when it held in the 1987 *Deutsche Schachtbau* case that it was not against public policy to enforce in England a Swiss arbitration award applying "internationally accepted principles of law governing contractual relations" - *lex mercatoria* for short.

If this is not against public policy in the case of a foreign award, why should it be against public policy in the case of an English award? To adopt the Model Law approach would bring English arbitration closer to the conciliation procedures favoured not only in civil law countries but also in the Far East and particularly in China, with its fast-growing economy reaching out for more intensive international trade. The Steyn committee has not dared go this far - yet.

The author is D J Freeman senior research fellow in international trade law at the Queen Mary and Westfield College, University of London

Michael Smith on the European Commission's intervention in plans for a Portuguese power plant

The European Commission has demonstrated through its intervention at a Portuguese power plant that it will pursue its ambitions to liberalise the European electricity market in spite of strong opposition.

Using European competition law, it has resisted to 15 years the period in which Electricidade de Portugal, the state-owned monopoly, will have exclusive rights to the electricity that will be produced from a power plant at Pego which is due to be completed in 1995.

The consortium building the plant, including the UK's National Power, had expected to have 28 years of exclusivity. It says it will not be hurt by the change, owing to a compromise deal with the Commission. But the EC intervention has set a precedent that, say EDP's lawyers, could affect the funding of future power stations in Europe.

The Pego case comes at a time when the Commission is fighting hard to gain acceptance for its "third-party access" plans, which are aimed at liberalising the European gas and electricity markets. It argues that a free market in all goods throughout the Community can be achieved only if energy is traded without restrictions imposed by monopolies. Competition would force a reduction in electricity prices, it believes.

Most of Europe's electricity companies, and in many cases the states that own them, have put forward arguments against the Commission's proposals. Unbridled cross-border competition along the lines proposed by the Commission, they say, would endanger security of supply. It would also reduce incentives for companies to invest in transmission systems.

Large sections of the European Parliament agree. MEPs have tabled 324 amendments to the 20 articles in the third-party access directive. If the directive is adopted, it is likely to be in a much diluted form.

However, the Commission has made it clear that it will use existing law to ensure that monopolies cannot exert what it considers to be too much influence over markets. Its chief tool is competition law, including article 85 of the Treaty of Rome prohibiting restrictive agreements which distort trade between states. The Commission's interpretation is that an exclusive supply obligation of more than 15 years is restrictive.

Ironically, the Portuguese electricity system is making considerable progress in introducing competition in energy generation and supply along the lines the Commission hopes to achieve through its third-party access directive.

The Pego plant, which may eventually supply about 10 per cent of the country's electricity, is being built by a consortium that includes National Power, Electricité de France and Endesa - the UK, French and Spanish utilities - as well as EDP. Most European countries would balk at providing such an inroad for foreign companies.

The Commission therefore apparently tried to avoid damaging Portugal's progress. It agreed that, after a 15-year exclusive agreement, Tejo Energia, the company set up by the consortium to operate Pego, will be able to sell surplus capacity to third parties providing EDP does not need it.

That harms none of the deal's participants, since EDP will be provided with all the electricity it needs from the plant, and the consortium is likely to find ready buyers in other countries, including Spain, for any excess.

But such a compromise may not be so easily achieved elsewhere. Countries without the capital to build the power capacity they need - especially in southern Europe - may find it more difficult to gain funding from the private sector. "Banks want the certainty of a strong revenue stream over a long period if they are to provide funds. The danger is that the Commission's approach will restrict the way that finance is raised," says Mr David Marks, a partner with McKenna & Co, a law firm that advises on big power projects including Pego.

The Pego decision and others that follow are likely to prove fertile ground for merchant banks and the lawyers.

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TECHNOLOGY

Science turns to ancient diets

Archaeologists and water scientists are joining forces to identify the diet and diseases of people living thousands of years ago, by studying their semi-fossilised faeces.

The Institute of Archaeology at University College, London, is working with Thames Water's Spencer House laboratory in Reading to develop the new geo amplification technique of polymerase chain reaction (PCR) for use on "paleo-faeces".

According to Mark Spigelman of the Institute of Archaeology, these are quite common in dry parts of the world.

"In the southwestern US, there are cave-fills of the stuff," he says. "My oldest specimen is from a 19,000-year-old campsite in Egypt." Spigelman, who has already used PCR to find traces of tuberculosis bacteria in ancient skeletons, believes that paleo-faeces contain enough surviving genetic material (DNA) to be detected by the technique.

He hopes to identify fragments of genes both from disease-causing bacteria and from the plants and animals in the ancient diet.

Colin Fricker, Thames Water microbiology manager, has an obvious professional interest in identifying traces of human faeces, in order to test water quality.

"We have been developing new methods of detecting E. coli, a bacterium found in faeces, for some time, so it was an incentive to improve the sensitivity and accuracy of these tests," he says.

The latest PCR test for E. coli, developed by Thames Water, picks out a bacterial gene for an enzyme called beta-glucuronidase.

The scientists plan first to look for this gene in ancient faeces and then move on to others.

Recent experiments have shown that the DNA molecule is far more robust than scientists had imagined a decade or so ago.

PCR has recently been used to extract and amplify traces of genetic material from insects trapped in amber more than 100m years old.

Clive Cookson

The sight of Chris Waddle missing a vital penalty at a World Cup soccer semi-final three years ago may not appear to have much to do with electricity use, but the behaviour of television viewers after England lost to Germany led to a record surge of power that night.

The management of power demand is a complex task. To ensure it continues to be handled smoothly, from times of normal use to emergencies such as hurricanes, the National Grid - which distributes electricity in England and Wales - has spent £32m on a computerised energy management system it believes is the highest and most modern in the world.

Electricity demand in the area covered by the National Grid can vary between 16,000 megawatts early on a summer morning to nearly 48,000 MW on a very cold winter evening. Power consumption also rises sharply after popular TV soap operas or blockbuster films.

Viewers get up after a long evening's viewing, switch on the lights and put on the kettle for a cup of tea.

This is what happened after Waddle and his team-mates missed the deciding penalties at the end of one of the most exciting matches of the championship, televised from Italy. Electricity use briefly shot up by as much as 2,800 MW after the game, equivalent to the output of a very large power station.

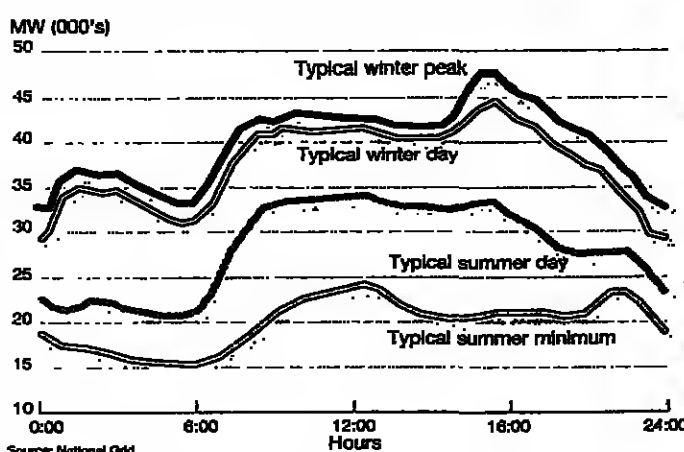
On an average day, enough electricity is used in England and Wales to keep 10m kettles boiling round the clock; in winter, the equivalent is 17m. This is what the National Grid's new system, formally opened last month after 100 days in faultless operation, is designed to manage. From the new control centre at Wokingham, Surrey, with the help of four area centres in St Albans, Birmingham, Leeds and Bristol, electricity is routed around the 7,000km of the country's transmission routes.

By spending some £80m on its new control network (including the energy management system), the National Grid has streamlined its activities and closed two regional sites at Manchester and East Grinstead. It now has an array of new computers and sophisticated software capable of evolving in line with future advances in technology.

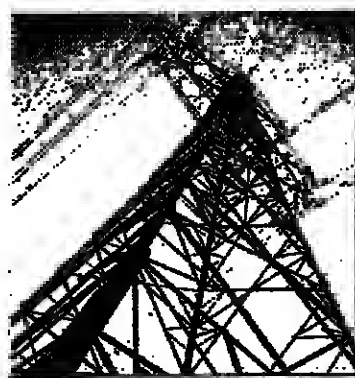
The previous system dated from 1970, when the national control centre was at London's Park Street, south of the River Thames. Its Argos computers made by Ferranti of the UK - now the subject of a humiliating 1p a share bid from General Electric Company of the UK - were kept running until earlier this year, although new equipment was also added over the past two decades.

"In the early 1980s, we realised we

Electricity demands in England and Wales



Source: National Grid



Power to the people

The UK's National Grid has just invested in a sophisticated control network, writes Andrew Fisher

needed to get to the next level of technology," says John Tomlinson, system control manager. After going out to tender, National Grid narrowed the choice down to Ferranti and Minnesota-based Empros Power Systems Control, then owned by Control Data of the US but now part of Siemens, the German industrial group.

Having decided on Empros, which has more than 400 energy systems installed around the world, the National Grid went to great lengths to ensure its systems would be as error-free as possible. It subjected the hardware and software to 14 different audits each. Testing was so rigorous that the test plans took up 45 feet of paper.

As a result, the company believes it has a system which is as reliable as it is possible to obtain. Roger Hunter, EMS project manager, is suitably cautious, however, when he says: "As far as we know, at the present time, there are no errors." The system was also delivered on time and within budget, a rarity for such big computer projects.

The National Grid went to such lengths to ensure both quality and robustness because it wanted a system which could do much more than its previous one. The Empros

system, with its host of computers, workstations, display units and 4m lines of software code (capable of running 46 applications and 40,000 displays) is not just designed to switch energy around the grid system, including the import of power from Scotland (where distribution is handled by the generating companies) and France. It also has a far greater capacity to deal with emergencies such as freak storms or terrorist bombs.

To ensure the utmost degree of fail-safe security, each centre has three big Cyber computers from Control Data for normal, stand-by and emergency use. If a disaster causes the Wokingham centre to go down, national control can be switched to St Albans which controls the London region.

Here, there is a fourth Cyber, normally used for training - faults such as those caused by the 1981 hizzards have been modelled into the simulator with frightening realism - but which can be switched to run the whole grid. "You can't have a day off while you put something right," says Tomlinson.

In the old system, this degree of integration did not exist. Nor was it able to perform advanced applications at a level far beyond the normal ones of monitoring power flows, voltage levels and other daily

functions.

With the Empros equipment, says Hunter, the grid system can be subjected to "limits and capabilities never before possible." Readouts on any aspect of the grid system can be obtained in seconds rather than minutes; 22,000 separate items of information are checked every five seconds.

This vast flow of data is needed not only to update the rate of daily power flows from the privatised energy groups to the regional electricity companies (who own the National Grid), but also to deal with the unexpected.

"This system can handle the most onerous of power station conditions," adds Hunter. The Empros system was tested to see how it would stand up to all types of use from normal demand to the impact of lightning strikes and hurricanes.

Now its system is in operation, the National Grid is keen to work with Empros and Siemens, on foreign contracts. "The whole market place is worth nearly \$1bn (£714m)," says Tim Kenealy, general manager of Siemens Empros, which has a share of around 20 per cent. He sees strong possibilities in eastern Europe and other developing areas, despite scarce funds, as well as in industrialised countries wanting to update electricity distribution.

Nancy Dunne on a new a software system which will aid analysts

The world's data at your fingertips

In 1990, China spent \$2m (£1.4m) on US motor vehicles. The figure for this year totals as much as \$230m for the first six months alone.

US vehicle sales have been rising throughout Asia. Between January and June, sales increased in Japan by 4 per cent over the same period of 1992. In Taiwan, they jumped by 11.4 per cent, but in Hong Kong they soared by 543.7 per cent.

These trends were gleaned from US Commerce Department data. Normally, they would take weeks to spot, but a new computer software system called World Trade Atlas now brings the figures to trade analysts and exporters in seconds.

Donald Brasher, president of Global Trade Information Services (GTI) of Columbia, South Carolina, wrote the program.

As a trade consultant to Thailand and Bangladesh, he saw the need for increased access to international trade data through computer technology and improved data for policy decision-making.

One of his clients recently requested information about the US wood trade in the wake of the spotted owl controversy, which froze logging on many federal lands. A few seconds of key pushing revealed a 53 per cent increase in the value of rough wood exports to Japan and one of 56 per cent to China in the first half of this year, while the volume of exports remained flat. The conclusion was that price rises, averaging more than 50 per cent, had failed to depress demand.

The development of CD-Rom technology and subsequent price reductions which make it available to small entrepreneurs are driving the information revolution, says Brasher. The World Trade Atlas is a prime example.

"Anyone can publish a CD-Rom," he says, noting that CD-Rom players are rapidly becoming standard personal computer peripherals. After six months on the market, Brasher predicts sales of between \$200,000 and \$300,000 this year.

He has only 15 subscribers, but they are important ones. They include the US Chamber of Commerce, the American Association of Exporters and Importers, the International Footwear Association and the Retail Industry Trade Action Coalition. Their numbers are growing. Brasher expects to have between 40 and 50 clients by the end of this year and at least 100-200 by the end of 1994.

GTI is signing leading international distributors to market the program globally. Next year, he expects to add EC and Japanese trade data to the program and he may include numbers from Chile and Canada. Each month, Brasher updates the software from data acquired from US government computer tapes. It is reorganised and sent to subscribers by express mail on a CD-Rom disc.

The World Trade Atlas provides information for a three-year time comparison. By hitting a key, subscribers can display product and country information sort data by market share or percentage change; switch from country to product sequencing; compare quantity and average unit price data among countries; shift between export and import data; and check the balance of trade data for the world and individual countries.

The service is particularly helpful for exporters, Brasher says.

Brasher learned the ways of Commerce Department data production when, as a young analyst there, he helped to reconcile the differences between US import statistics and Hong Kong's export figures. Now, the Commerce Department is his chief competitor. It sells a system which transmits information electronically. Although it cannot produce trends in seconds like the World Trade Atlas, it has become more accurate since the introduction of an automated interface that reduces data entry errors.

The atlas is sold by GTI on a subscription basis for \$4,920 a year (\$2,880 for educational institutions).

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MANAGEMENT: THE GROWING BUSINESS

Richard Gourlay looks at proposals for a private-sector, long-term credit institution in the UK

A challenge to the chancellor

Medium-sized UK companies have long yearned for the sort of secure, long-term finance available to Germany's Mittelstand. If proposals presented by the Small Business Bureau to Cabinet ministers ahead of this month's Budget are accepted, they may soon get it.

The idea is for the creation of an independent, private-sector funded, long-term credit institution similar to Germany's Kreditanstalt für Wiederaufbau (KfW), which would disburse fixed-rate, seven-year loans.

This so-called Enterprise Fund, its supporters claim, would provide funds for expansion on substantially easier terms than anything currently available to UK small and medium-sized manufacturing firms. Even if the proposal does not make it to Kenneth Clarke's dispatch box - and most pre-Budget ideas floated by the small business lobby do not - the idea is being studied as part of the review of business financing being undertaken by Anthony Nelson, the Treasury economic secretary.

The Enterprise Fund is the creation of Peter Hanrahy and Mark Gheerbrant, bankers at Industrial Bank of Japan International, and is one of five proposals which will be announced by the Small Business Bureau this week.

The new institution would issue 10-year eurobonds guaranteed by the UK government. The authors envisage an initial £20m being raised over five years, a figure which seems less ambitious set beside the £70m lent by the KfW in Germany in 1981.

The fund would lend to companies introduced by UK commercial lending institutions, which would jointly administer the scheme. The draft proposal suggests banks would start by taking 25 per cent of the credit risk; the fund, and ultimately the government at the time the bonds were repaid, would bear the remaining 75 per cent.

The authors say banks would be encouraged to approach the fund because clients would be pressing for access to seven-year, fixed-rate money (probably at an all-in cost of about 10 per cent after a 300-basis point profit for the bank).

Established businesses with sales of at least £3m and up to £50m would be the target, effectively positioning the Enterprise Fund above the cut-off level for the government's Loan Guarantee Scheme.

Because the fund is a private-sector institution, the authors believe the government's guarantee would not affect the size of the PSBR, a concern that torpedoed proposals for a long-term credit institution two years ago. It is far from clear, though, that this hurdle has been overcome.

The key attraction of the proposed plan is that it would reduce one important area of risk in the expansion of a business - the risk of commercial banks withdrawing credit. Barry Baldwin, head of the Small Business Bureau policy unit, says many businesses decide not to invest for expansion because bank covenants are too extensive.

They do not allow for quite normal deterioration in financial ratios at times when either the trade or economic cycle has turned down.

Enterprise Fund money would be structured, the authors say, with the minimum of onerous covenants. Only in exceptional circumstances would loans become repayable before maturity. Academics have welcomed the initiative. They argue the UK has suffered from the absence of a KfW or Japan's three, long-term credit institutions, which played a big role in post-war economic reconstruction.

But there could be considerable resistance from the commercial banks, without whose co-operation the fund would get nowhere. Crucially, they would need to be convinced the new institution could work alongside them and would not compete for business.



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Given the chequered history of the Loan Guarantee Scheme, where default rates have been relatively high, the government would also need to be persuaded it is not being asked to guarantee what are effectively unbankable propositions.

* Mark Gheerbrant - 071 480 6943
* Mark Cheerbrant - Small Business Bureau, 071 976 7262

Businesses which use commercial agents have been giving them notice to avoid the impact of European Community regulations.

The regulations, which cover the legal relationship between the parties and come into effect on January 1, generally strengthen the position of agents. In particular they provide for compensation where an agreement is terminated by the principal other than for breach of contract (for further discussion see FT Growing Business page, 27 July).

Stephen Sidkin, of London solicitors Fox Williams, reports that some manufacturers and suppliers are reappointing their agents as distributors or franchisees, buying and selling goods for their own accounts. Others are offering them direct employment.

"In brief they are taking on

liability as employers as opposed to facing the quasi-employee benefits which agents will soon enjoy."

The Department of Trade and Industry issued a draft compliance cost assessment in September which estimated that annual compensation costs could be anything between £5,000 and £80,000 per sales force.

Sidkin points out that unless the notice brings the contract to an end on or before 31 December, companies will have to honour their existing terms as well as comply with the new regulations.

Revising standards for UK managers

Senior management standards developed by the Management Charter Initiative are to be adapted so that they can be applied to small and medium-sized organisations.

The MCI, an independent body set up by employers and backed by the government, seeks to improve the performance of UK managers.

Vlad Stancu, the MCI development director, said it was felt necessary to apply draft senior management standards to the particular needs of smaller organisations.

Support for the small firm

The role of trade associations and similar small firm support bodies is discussed in a 37-page booklet which has just become available.

Written by Ray Parr, previously manager of the Department of Trade and Industry's Small Firms Information Centre in the Midlands and now a volunteer counsellor in a local enterprise agency, it sets out to help readers choose the most appropriate representative organisation. It details the cost of membership as well as listing the services provided.

Parr believes the value of support is often overlooked. "All too often attention is concentrated on that essential and often necessary trip to the accountant, bank manager and solicitor, but that should not obscure the potential of a fourth leg to the support framework."

"Any other body is published as a private venture, price £2.95. It can be ordered from Caterpillar Publishing, Caterpillar House, 19 Donnington Drive, Christchurch, Dorset BH23 4JZ

Changing terms for commercial agents

Businesses which use commercial agents have been giving them notice to avoid the impact of European Community regulations.

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Happy to be cut down to size

Sean Titterton confides that his friends thought him adventurous, if not foolhardy, when he joined a small, impeccable company after 19 years with a UK clearing bank. His instinct was to look for an employer of a similar size when he opted for redundancy from the Royal Bank of Scotland, rather than relocate.

Titterton, a marketing manager, assumed his temperament and experience would be better suited to a big company.

One hundred failed applications later he welcomed the opportunity to join Laser Graphics, a small Hertfordshire-based company employing 16 people. Today he admits those previous assumptions were incorrect ones. Although he gets frustrated at times, particularly over

the lack of formal structure, he enjoys the challenge of a business that has to respond quickly to changing customer tastes.

Titterton is one of the thousands of managers who have successfully moved from a big company to a much smaller one. But according to Oliver Johnston, national campaign leader for economic development at the Industrial Society, most people making the transition can benefit from professional training.

There are many sources of such expertise - business schools, for example - but one of the most recent is a scheme called Connect for Growth, funded by London's Training and Enterprise Councils (TECs) and run by Enterprise Partnership, a London-based training

and management consultancy. The scheme matches the skills of professionals and managers who have been unemployed for six months with the needs of small companies. After two weeks of training, managers are hired on short-term contracts and may be offered full-time employment at the end of the placement. Previous courses have had success rates of over 50 per cent.

Linda Stoker, managing director of Dow-Stoker, a small business which provides training courses including ones for redundant executives, says: "I've hired a few people who had worked in big companies and some have failed. They have not been able to roll up their sleeves. We had one person who when we moved to new offices over

a weekend was conspicuous by her absence. She was also very status conscious and suggested that all the parking spaces in the new offices, went to managers. We don't do that sort of thing."

Managers making the move should be prepared to leave behind not only the perks but also many of the qualities that made them successful in a big company, according to the Industrial Society. "An individual may have had up to a 10-year time-frame for planning and been good at it," observes Johnston. "In a small business decisions may have to be taken in 10 minutes."

Some managers, meanwhile, feel insecure in organisations where there may not be formal performance assessment. Geoffrey Burn, a former director of information

systems with a large retailing organisation, says: "In my old company I knew exactly where I was. We had clearly defined objectives and formal systems of appraisal. In my new company we have none of that. One can feel insecure."

The suspicion may be mutual. Owner-managers are often alarmed by professional managers, says Mike Anyon, who now works as sales director with RS Colour, a Manchester-based printing company employing 70 people. He used to work for Du Pont and Philips Electronics. "It has to be a two-way learning process. But I am getting a lot of satisfaction from teaching a very enthusiastic sales force the best practice in the business."

Lisa Wood

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No. 00341 of 1993 is the High Court of Justice (Chancery Division) in the MATTER OF GARTWORTHY PLC and

IN THE MATTER OF THE COMPANIES ACT 1985

NOTICE IS HEREBY GIVEN that the Order of the High Court of Justice (Chancery Division) dated 27th October 1993, confirming the reduction of the Share Premium Account of the company by £35,401,362.09 and the reduction of its capital from £100,000,000 to £64,598,637.91 and the Mincle approved by the Court sharing with respect to the capital of the Company in all the several particulars required by the above mentioned Act were registered by the Registrar of Companies on 28th October 1993. Solicitors for the above named Company

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Notice is hereby given that the Order of the above named Company commenced on 28th May, 1993 and Corporate Management & Restructuring (BVL) Limited of Abchurch Lane, 2nd Floor, P.O. Box 933, Road Town, Tortola, British Virgin Islands, has been appointed Liquidator of the Company.

Dated 16th October 1993
P.A. LAWRENCE
Liquidator

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NOTICE is hereby given that the Liquidation of the above named Company commenced on 28th May, 1993 and Corporate Management & Restructuring (BVL) Limited of Abchurch Lane, 2nd Floor, P.O. Box 933, Road Town, Tortola, British Virgin Islands, has been appointed Liquidator of the Company.

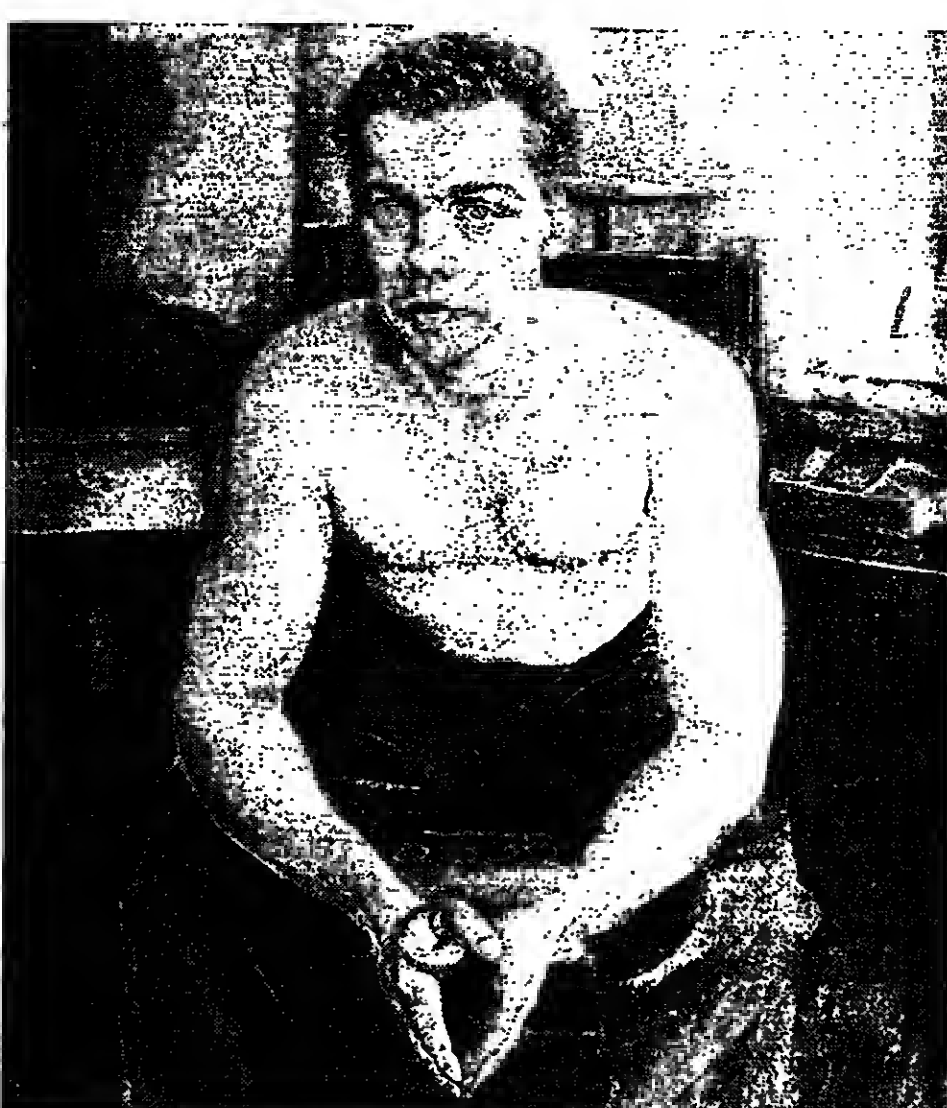
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'Blotter' by Peter Dalg, 1993, winner of this year's John Moores



Picture which deserved a prize: 'Portrait of Joshua', 1993, by Sarah Raphael

A prize commitment to painting

Despite all the brouhaha about the Turner Prize, the televised dinner, speeches and fuss with envelopes, it is still the John Moores that artists want to win. Perhaps this is because the John Moores was the first of the open submission prize exhibitions, and the peculiar affection in which this competition is held reflects the late Sir John's personal enthusiasm and support for many years, since it started in 1957.

Of course there will be grumbles and speculations about the collective interests and judgments of the jury, and disappointed incredulity afterwards, as much at failure to get in as at the disposition of the awards. But the Moores is the talking point among artists, who show a degree of interest, and involvement much greater than they do for the Turner Prize. Sir John Moores' recent death

at 97 has naturally cast this, the 18th, as his memorial Liverpool Exhibition, as well as some doubt as to its future. These doubts were put to rest when the Moores family said it would continue to support the exhibition in principle. Although the form might change, this is good news. The Moores has often modified itself in any case, and its current limitation to paintings, and but the lowest of reliefs is a long-standing grievance and irritation to sculptors. I am firmly on the side of the painters and see little need for change. The commitment to painting in particular, in a time when it seems to be increasingly discredited by the art establishment and its promoters of the institutional avant-garde, is its greatest strength.

In an intriguing essay in the catalogue, Andrew Brighton, one of this year's jurors, writes upon the ever-shifting relationship that the Moores has enjoyed with its critics. It

began 36 years ago as an opportunity for the more advanced artists who were at that time excluded by the Royal Academy, to set themselves against their peers. Ironically, it has now become the one serious opportunity to remind the avant-garde itself of one of the principal disciplines in the great tradition of

proportion more figurative paintings than I can remember, and inevitably particular inclusions, indeed prize-winners, that I find inexplicable. But overall the emphasis seems to be placed, as it should be, on good painting of whatever kind.

Little in this exhibition is objective, that is derived from

William Packer reviews the 18th John Moores exhibition at the Walker Art Gallery, Liverpool

art, putting paint on canvas. There is nothing of controversy to this year's Moores, nothing of the conceptual bias or feminist agenda of last time or the time before. And it is precisely its disengagement, its lack of controversy that makes it useful. It is a straightforward survey of current British painting, the 54 works that the jury considered the best of the 2013 submitted. There are in

direct observation of the real and visible world. Sarah Raphael's small portrait of a friend, Joshua, is the outstanding example of that sort and certainly deserved a prize. There is no landscape or interior that is not to some extent photographed in its reference (Paul Winstanley, Geoff Stalker, Martin Greenland), or schematic (Adrian Berg, Adrian Henri). Perhaps this is nothing more

than fair reflection of the submission, but, by my own experience as juror on the Moores, I doubt it.

The first prize of £30,000 has gone unexceptionally to Peter Dalg for his large and characteristically elegant and mannered amplification of a photograph of a man standing on ice - or is it perhaps in a puddle - in a winter forest landscape. But in general the best of the painting is, perversely, abstract, notably Trevor Sutton's minimal roundel, a low relief panel in white and gold that is as physical as it is seductive, by Stephen Buckley, a former prize-winner, and Simon Gallery's large, allusive, exquisitely reticent canvas worked in horizontal bands of pink and grey, red and violet. Best of all is Michael Ginsborg's sharply curvilinear, linear image, as taut as a carriage spring, pale red on pale pink and orange. I would have given it the prize.

Am I damning this Moores

with faint praise? Not at all. "Has the Moores become an exhibition of, perhaps, relatively sophisticated, consensual (sic) painting?" asks Mr Brighton. "Or can it still within its limitations... attract... work which is part of the tradition of modern art? Which is the case and which desirable seems to me the general issue... now for critics to address." This seems to miss the point. I only wish that the Moores would embrace a wider scope to take in that more objective strain, worked direct from model or landscape that sustained Cézanne, Matisse, Giacometti, Balbus, Freud. Even so, by its very sophistication, and the professional consensus it celebrates, the Moores still and most effectively displays work that is indeed truly "part of the tradition of modern art."

John Moores Liverpool Exhibition 18: Walker Art Gallery, Liverpool, until January 23.

Sunday afternoon's piano recital by Leif Ove Andnes formed a coda to the Barbican's weekend celebration of the Grieg 150th anniversary. The 23-year-old Norwegian had launched this on Friday, playing the original version of Grieg's Piano Concerto, and here the composer was represented as centrepiece of the programme.

Grieg was above all a master of small-scale forms, and Andnes offered a string of miniatures - the fourth *Allegretto* and six of the *Lyrical Pieces*. One had to admire him for playing pieces some might regard as too insubstantial for a major recital. Simple only on the surface, they require fluent technique to be brought off as enchantingly as they were here.

Concert Andnes's Grieg

Andnes's selection proved very satisfying, like a series of delicate water-colours. He proved sensitive to their varying moods and vivid characterisation, capturing his country's folklore in the *Hardanger Fiddlers of the Alnabukke*, and the humour in the "March of the Trolls". Other highlights were a glistering "Butterfly", the impressionistic "Bell-ringing", and the touching simplicity of "At Home". Where other pianists might have turned heavy-handed, he maintained an easy dexterity, investing quieter dynamics with colours

of extraordinary subtlety. To leave the audience in no doubt of his virtuosity credentials, Andnes framed his Grieg with Liszt and Chopin. He opened with a bravura account of the former's second Ballade, cogently argued, but Andnes showed his serious intent best of all in an elegant performance of the Chopin Third Sonata - the Largo radiant, the outer movements majestic yet measured with an inward calm that spoke of the interpreter's astonishing maturity.

Although the Grieg remained longest in the memory, this was a well-balanced recital. An all-Grieg programme would have been too obvious, and this versatile young Norwegian is right to avoid being typecast so early in his career.

John Allison

What with World Cup soccer wins, his country's stock exchange riding at a three-year high and the diplomatic coup in bringing the PLO and Israelis to a peace accord, you would think that Norway's Jan Garbarek would cheer up a bit. His most recent album *Twelve Moons* (ECM 519 500-2), which set the searing vocals of folk singing against his own plaintive reeds, has heaped success on success and yet he remains an old gloomy boots.

This was the gist of a conversation overheard at the Festival Hall last week mid-way through the saxophonist's chilly set. But in this marvelous small group with sidemen Rainer Brüninghaus (keyboards), Eberhard Weeber (bass), and Marilyn Mazur (per-

Jazz Garbarek at his best

cussion), the ascetic Garbarek is at his atmospheric best. Sparse arrangements of hypnotising melodies are worked up into landscapes of uniquely north European complexity. Where the accompaniment is bleak, the soloists scorch a path through. The ensemble playing is both elemental and transcendental.

Garbarek's band balances perfectly in an unorthodox way. Denmark-born Marilyn Mazur stands behind a kit which combines traditional drums with a hanging garden of exotic shakers and bells. In

contrast to this natural rhythm, at the other end of the stage Brüninghaus creates a fine synth mix embedded with twinkling notes. Centre stage and alongside Garbarek, Weber at the electronic bass (a hybrid of upright fiddle and bass guitar with a delay pedal) weaves plangent lines with the bow in sympathy with Garbarek's keening soprano.

But the second set brought a new, airborne tenor sound from the leader. Enlivened by Mazur's brilliant, dervish-like performance behind the shakers and more angular, discordant phrasing from Weber, Garbarek took off, quoting Gilberto and leading the group out of the fog and into an almost jolly Norwegian funk - if such a thing is possible.

Garry Booth

INTERNATIONAL ARTS GUIDE

AMSTERDAM

Concertgebouw Tonight: Rafael Orozco piano recital. Tomorrow, Sun, next Tues: Gerard Oskamp conducts Netherlands Philharmonic Orchestra in works by Musorgsky, Glazunov and Sibelius, with violin soloist Emmy Verhey, Thurs and Fri: Claus Peter Flor conducts Royal Concertgebouw Orchestra in Janacek, Poulenc and Shostakovich. Sat afternoon: Edo de Waart conducts concert performance of Lohengrin, with cast headed by Thomas Surnegard, Sergei Leiferkus, Deborah Voigt and Gabriele Schnaut. Sun morning: Guarnieri Trio plays Ravel and Dvorak. Nov 10, 11, 14: Wolfgang Sawallisch conducts Royal Concertgebouw (24-hour information service 020-675 4411 ticket reservations 020-671 8345). Muziektheater Tomorrow, Thurs, Sat: Nederlands Dans Theater in choreographies by Kylian and Naharin. Sun: Christoph Rousset conducts first night of Pierre Audi's new Netherlands Opera production of L'incoronazione di Poppea, with

cast led by Cynthia Haymon and Brigitte Baileys (repeated Nov 10, 14, 16, 19, 22, 25, 28, 30). Nov 11, 12, 13: choreographies by Anne Teresa de Keersmaeker (020-625 5455).

BRUSSELS

Palais des Beaux Arts Tomorrow: Yayoi Tada plays violin sonatas by Beethoven, Ysaye and others. Thurs: Armin Jordan conducts Orchestra de la Suisse Romande in works by Gaudibert, Schumann, Ravel and Roussel, with piano soloist Martha Argerich. Fri: Jean-Claude Casadesu conducts Orchestra Nationale de Lille and Pro Musica Chorus of London in Haydn's Creation. Sun afternoon: Pierre Bartholomée conducts Liege Philharmonic Orchestra in Mozart, Bartok, Liszt and Strauss, with violin soloist Silvia Marcovici. Sun evening: Marc Soustrot conducts Orchestra of the Monnaie in Bizet, Beethoven and Strauss (02-507 8200). Monnaie Tomorrow, Sat (also Nov 9, 11, 12, 14, 16, 18): Marc Soustrot conducts Guy Joosten's production of Carmen, with Graciela Araya and Richard Margison (02-218 1211).

CHICAGO

Chicago Symphony: Georg Solti conducts four programmes this month. Tonight: Haydn's The Creation. Fri and Sat: Dvorak's Cello Concerto (Steven Isserlis) and Stravinsky's Petrushka. Nov 11, 12, 13: Hungarian programme. Nov 18, 23: Stravinsky,

Mendelssohn and Beethoven. Midori gives a violin recital on Sun (312-435 6666).

CHICAGO LYRIC OPERA

This month's repertoire consists of Tosca with Maria Ewing (tonight, next Mon and Fri), Carlisle Floyd's Susannah starring Renee Fleming and Samuel Ramey (final performance on Fri) and Così fan tutte, conducted by Andrew Davis and staged by Peter Hall, with Carol Vanessa, Keith Lewis, Delores Ziegler and Jeffrey Black (from Saturday). A new production of Die Walküre opens on November 23 (312-332 2244).

GENEVA

Comédie A new French-language production of John Millington Synge's 1907 tragic-comedy The Playboy of the Western World opens tonight, directed by Claude Stratz. Daily except Sun and Mon till Nov 20 (022-320 5001). Grand Théâtre A new production of La Cenerentola, conducted by Jesus Lopez Cobos and staged by Jerome Savary, opens on Sat, with a cast headed by Jennifer Lamore and Rockwell Blake (repeated Nov 9, 11, 14, 16, 19 and 21). Ann Murray gives a recital on Nov 10 (022-311 2311). Victoria Hall Thurs: Natalia Gutman, accompanied by Eliso Virsaladze, plays Beethoven cello sonatas. Sun: Theodor Guschlbauer conducts Strasbourg Philharmonic Orchestra in works by Berlioz, Chausson, Saint-Saens and Roussel, violin soloist Miriam Fried. Nov 8, 9, 10, 11: Gerhard Oppitz gives a Brahms

piano cycle (022-310 6611).

THE HAGUE

AT&T Dancestheater Tomorrow, Thurs: Dutch National Ballet in choreographies by Forsythe, Balanchine and Pistor. Fri: Nederlands Dans Theater in choreographies by Naharin and Kylian. Sat: Moxie dance group (070-380 4930). Dr Anton Philipszaal Fri: Five Blind Boys of Alabama. Sat: London Chamber Orchestra plays Britten, Elgar, Gorecki and Vivaldi. Sun afternoon: Gerard Schwarz conducts Hague Philharmonic Orchestra in Mozart and Brahms. Next Mon: Rafael Orozco is piano soloist with Zagreb Philharmonic Orchestra (070-380 9810).

ROTTERDAM

De Doelen Tonight, tomorrow, Thurs: Gerard Schwarz conducts Hague Philharmonic Orchestra in Mozart and Roussel, with piano soloist Ivan Moravec. (010-217 1717).

VIENNA

Staatsoper Tonight: A Midsummer Night's Dream, ballet with music by Mendelssohn and Ligeti. Tomorrow and Sun: Il trovatore with Cheryl Studer, Agnes Baltsa and Sergei Leiferkus. Thurs: Lucia di Lammermoor. Fri: Madame Butterfly. Sat: Capriccio. Next Mon: La bohème (1444 2855). Musikverein Tonight: Jessye Norman song recital. Fri: Mark

Brown conducts Pro Cantione Antiqua in a programme entitled The English in Love. Sat afternoon: Seiji Ozawa conducts Vienna Philharmonic Orchestra in works by Berg, Mendelssohn and Brahms. Sun afternoon, Mon evening: Stephen Hough plays Hummel's Piano Concerto with Tonkünstler Orchestra (505 8190). Konzerthaus Wien Modern: Vienna's contemporary music festival runs throughout November, with special focus on Penderecki, Takemitsu, B.A. Zimmermann and Erich Urbanner. Other composers represented this week are Oliver Knussen, Magnus Lindberg and Mark Antony Turnage, whose music is included in a Scherzo Ensemble concert conducted by Claudio Abbado on Sat (712 1211).

WASHINGTON

MUSIC ● Mariss Jansons conducts St Petersburg Philharmonic Orchestra tomorrow in works by Tchaikovsky and Rakhmaninov, with violin soloist Shlomo Mintz. Zdenek Macal conducts National Symphony Orchestra in works by Rakhmaninov and Brahms on Thurs, Fri, Sat and next Tues, with piano soloist Zlmon Barto (202-467 4600). ● Neville Martinson conducts Baltimore Symphony Orchestra in symphonies by Mozart and Tchaikovsky at Baltimore's Joseph Meyerhoff Symphony Hall on Fri, Sat and Sun afternoon (410-783 8000). ● Washington Opera's 1993-94 season opens on November 13 with Anna Bolena and starring Nelly

Miricolu (202-416 7800).

THEATRE

● Lips Together, Teeth Apart: Terence McNally's play about two married couples who spend the Fourth of July together on Fire Island. Opens tomorrow (Studio Theater 202-332 3300). ● For Reasons that Remain Unclear: Mart Crowley's play about a Hollywood writer who meets by chance in Rome. Opens tomorrow (Olney Theater 301-924 3400). ● Carrier: Conrad Bishop and Elizabeth Fuller explore the complex emotional legacy of the Vietnam War. Opens tomorrow (George Mason University 703-993 8888). ● Dancing at Lughnasa: Brian Friel's award-winning play about five Irish Catholic sisters in Donegal in 1936. Opens on Sat (Arena Stage, Kresger Theater 202-488 4377).

ZURICH

Opernhaus Tonight, Fri, Sun: Nello Santi conducts Jonathan Miller's new production of Falstaff, with cast led by Juan Pons. Tomorrow: Così fan tutte. Thurs: Rigoletto. Sat: Die Zauberflöte. Next Mon: Ann Murray song recital. This month's repertoire also includes Il barbiere di Siviglia, Macbeth, Nutcracker and a new production of Raymond's (01-262 0808). Tonhalle Tonight: Edmond de Stoutz conducts Zurich Chamber Orchestra in Haydn, Dragonetti, Durante and Telemann, with double bass soloist Gary Karr. Thurs: Wolfgang Holzmair song recital (01-261 1600).

ARTS GUIDE

Monday: Berlin, New York and Paris. Tuesday: Austria, Belgium, Netherlands, Switzerland, Chicago, Washington. Wednesday: France, Germany, Scandinavia. Thursday: Italy, Spain, Athens, London, Prague. Friday: Exhibitions Guide.

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Sponsorship/Antony Thorncroft

Down but not out

After years of steady growth, expenditure on arts sponsorship came to a halt in 1992-93. Against the odds it had risen by an impressive 14 per cent in 1991-92, to £64.4m, encouraging the belief that somehow sponsorship was recession proof. But when the Association for Business Sponsorship of the Arts announces the most recent figures later this week they will show a fall, not a mammoth fall but enough to force the sponsorship industry to reassess its approach.

The smaller, regional, first-time sponsors are still joining up with enthusiasm, but the large commitments from the major traditional sponsors are harder to find.

On cue, two of the great British arts sponsorships, the Royal Insurance support for the Royal Shakespeare Company, and the Digital Dance Awards come to an end next month.

Royal insurance pumped £3.5m into the RSC over six years and both sides gained tremendously from the link. The RSC is now seeking a similar big backer. In the meantime it is having some success finding sponsors for individual new productions. Unilever subsidiaries, Lever Bros and Van den Bergh's, will put their brand names behind the new *Macbeth* opening in December, and there is a first-time sponsor, JBA International, a Stratford-based computer company, for the new *Moby Dick*. This has attracted a top-up grant from the Business Sponsorship Incentive Scheme administered by ABSA.

The RSC still has one long-term admirer in English Estates, which has given £200,000 towards the small venue tour of *Julius Caesar*, currently on the road. But next year English Estates disappears into the Urban Regeneration Agency and no one knows whether it will continue its imaginative approach of bringing the arts to culturally starved areas of the country.

The RSC has one big attraction for sponsors. It has an enthusiastic chairman in the Prince of Wales. On Thursday night its main sponsors and some prospective friends were invited to Buckingham Palace for a Shakespearean soiree.

Although dropping the Digital Dance Awards, Digital Equipment Corporation, the computer company, is sticking with sponsorship, and with dance. In six years it invested £700,000 in 70 new dance works. It now feels that dance, and dancers, are better able to stand on their own feet. However, it is keeping the £30,000 Premier Award for an individual, the biggest cash sum in the field, and is spending a further £180,000 in 1994 on training and the development of dance projects for larger venues. So the investment in dance has actually increased.

At the international level, Digital is reorganising. Its long-term support for the European Community Youth Orchestra has come to an end, but a future global sponsorship will not be decided upon for a year or so, by which time Digital's financial position should have improved.

Next week, Lloyds Bank will announce a £500,000-a-year sponsorship in the film area. The Bank, which in 1994 will spend over £2m in sponsorship,

believes that film is an under-exploited art form. It already backs the Lloyds Challenge for young scriptwriters and directors.

If fashion counts as art then Lloyds rivals BT as the leading British sponsor of the arts. Along with its involvement in film and fashion it also supports the Young Musician of the Year contest, which will fill BBC screens again next spring. Apart from a bias towards youth, all its links have one thing in common: they attract television coverage. Next year, Lloyds is expecting more than 15 hours of prime-time television to be devoted to events it supports.

Substantial one-off sponsorships of costly new opera or ballet productions are rare these days, but PowerGen came up with £110,000 for *Sylvia*. David Bintley's new work for the Birmingham Royal Ballet, which opened last week. But even here the sponsor is being hard-headed. If the ballet is a success, and stays in the RRB repertoire, then PowerGen will raise its support to £150,000. Fortunately the RRB's initial reaction was favourable.

Two unusual new sponsors are Jigsaw, the fashion retailers, and Elisabeth the Chef. Jigsaw is sponsoring a tour of a new dance work by the Harlem Dance Company choreographed by Bunty Matthias. The Company will visit regional towns where Jigsaw has shops, and the dancers' costumes were designed by Maria Cornejo, a Jigsaw consultant.

Elisabeth the Chef is a Leamington Spa based supplier of bakery products to supermarkets. One of its largest clients is Sainsbury, and inspired by the sponsorship programme of its important customer, it has funded a £5,000 postgraduate art student award. The winner of the New Art Award will be announced on Wednesday.

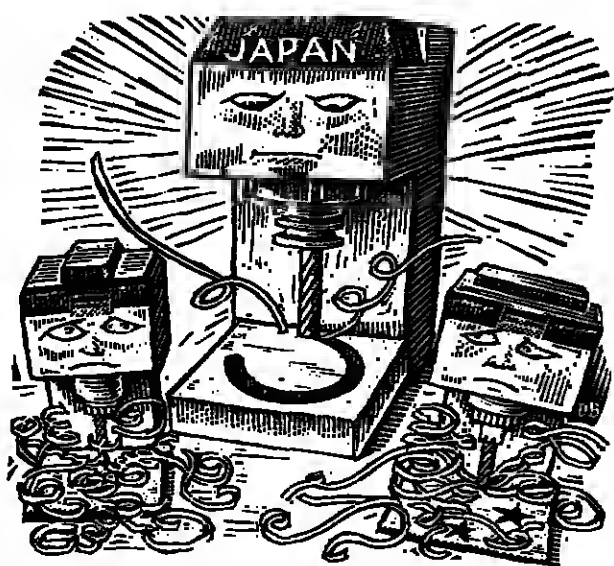
Beck's, the brewers, is one of a growing number of sponsors that want to be associated with the avant-garde. (It is a myth that sponsors only support the tried and tested: many companies think they can quickly acquire a go-ahead image if they back the experimental.) Beck's latest commitment, a mummified concrete house constructed by conceptualist Rachel Whiteread in East London, was unveiled last Monday. It will stand for just a few weeks. Working with Artangel, an organisation devoted to placing art in unorthodox settings, Beck's will contribute £50,000 over three years to create an annual landscaped creation, built to disappear.

Sponsorship may be faltering in the UK but there is still plenty of potential for international connections. The Orchestra of the Age of Enlightenment embarks in February on its first European tour, thanks to £50,000 from Goldman Sachs, which, as a first-time sponsor, would attract a substantial uplift from the BSIS. The American-owned bank wants to show off its European credentials.

Conversely, Banco Santander, along with the Royal Bank of Scotland, is generously backing the Spanish Arts Festival in London next spring. Between them they are putting almost £300,000 into the festival, helped by a £25,000 BSIS grant for the Banco.

Europe's metal fatigue

Andrew Baxter on the threat from Japan's machine tool makers



While some of them can match the Japanese on the flow of new products, they find it hard to compete with their rivals' financial muscle. Japanese manufacturers' higher sales volumes enable them to weather recessions more easily and support a more aggressive global manufacturing and marketing policy. Hitachi Seiki, for example, has started producing in Germany, and has recently slapped its first "Made in Europe" sticker on a machining centre produced in a joint venture with the Klockner industrial group.

Traub, meanwhile, announced in September that it is receiving a capital injection from banks and its main family shareholders to reduce its debts by DM90m (£32.5m). It is also receiving help from the Treuhand, the agency charged with privatising east German industry, to buy Hackert, an east German producer of milling machines, in a deal that broadens its product range.

The question of the competitiveness of the European machine tool industry is the main talking point among producers. There are about 1,450 machine tool builders in Europe, and their problems are summed up by Cecimo, the umbrella body for national associations from Europe's 12 main machine-tool countries.

It says companies making standard machinery are too numerous and too small to compete effectively in the world market. And builders of more specialist machines lack the financial power to create a global presence and survive recessions. For many, this recession has been the worst - over the past three years, the

value of machine tools sold in the European market has fallen by 20 per cent to £2.6m. In spite of this bleak analysis, the share of total world production of machine tools by Cecimo countries has risen from 40 per cent in 1990 to 47 per cent last year. Europe has maintained a trade surplus in machine tools, albeit down from £2.45bn in 1988 to £1.92bn last year, as sales to growing markets in China and south-east Asia offset the collapse of traditional markets such as the former Soviet Union.

But Europe is still seeking a long-term solution through a two-pronged strategy to resolve the problems of an industry which has lost 32,000 jobs - 17 per cent of its workforce - over the past two years. First, Cecimo is asking the European Commission to adopt industrial and trade measures that would help the industry cope with its competitors.

Among its requests are: action to reduce the financial and employment costs for European producers, relative to those of the US and Japan; financial incentives for customers to buy machine tools whenever the market is in a severe downturn; a programme

For German machine tool makers, the crucial competitive battle is with Japan. The two countries account for 47 per cent of total global machine tool production, and Germany has far more producers competing head on with the Japanese than is the case in the rest of Europe.

Mr Hans-Joachim Holstein, sales and marketing director at Traub, speaks of a "vicious circle" in which the company is entwined in the system of high German labour costs and at the same time is the victim of cost pressures among its domestic customers.

"If we have cost cuts, then we have a chance to continue manufacturing here in Germany," he says. Traub already manufactures in France, Italy and Brazil, and plans to reduce manufacturing in western Germany from 80 per cent of total production to 50 per cent over the next 12 months.

It needs to reduce the cost of its high-volume standard machines by up to a quarter over the next year or so, says Mr Holstein, or else make them outside western Germany. Such an admission would have been unusual three years ago but is now common among leading European producers.

Cecimo says the problem of high labour costs is not confined to Germany. Only if the European industry can reform its cost structure will it be able to respond to customers who are increasingly looking for value for money rather than technical wizardry.

According to Mr Hans-Jürgen Marckmann, general commissioner at the Hannover show and chief executive of Dortmund-based Thyssen Maschinenbau, customers want equipment that is "as good as it needs to be", rather than "as good as possible".

Giving customers what they want cannot be a strategy which relies for help on the European Commission. Producers are increasingly aware that they should take the future into their own hands rather than wait for concrete proposals.

The response from the Commission to Cecimo's plea has so far been cautious, although it clearly recognises that Europe's machine tools could unlock increased manufacturing productivity.

Mr Daniele Verdiani, a senior official at the Commission's industry directorate, says: "The Community can always make business conditions more favourable," but adds pointedly: "The micro-economy cannot be regulated by a magic wand."

Joe Rogaly

Why judges are jumping



As Britain's elected politicians become less judicious, the country's judges become more political. It is not surprising that the judiciary is expanding its influence. The government thinks only of its day-to-day survival; the opposition is immobilised by fear of upsetting anyone. Our politicians are a sorry lot. The courts are presided over by some of the highest minds in public life. Like it or not, the latter are doing their best to compensate for the deficiencies of the former.

We have seen much evidence of this over the past few years. The modern half of the story begins in 1967, when the then new Lord Chancellor, Lord MacKay, intimated that judges could decide for themselves whether they wished to address the general public by talking to the media. He thus abolished the convention established in a letter written to the BBC by one of his predecessors, Lord Kilmuir, in 1955.

The essence of the "Kilmuir rules" was that, in order to keep the judiciary "insulated from the controversies of the day", their lordships should keep their honourable traps shut when off the bench.

Two years later the judges rewarded Lord MacKay's liberalism by publishing their objections to his proposals for reform of the legal profession. Senior judges handled the back-up campaign on TV. The result is instructive. The Mackay reforms have been, shall we say, modified on legal advice. Call it a positive result of open government.

It is not possible to be so kind about the government's strategies for the control of crime, the dispensation of punishment, and the administra-

tion of justice. The 1981 Criminal Justice Act was in need of urgent repair the day after it became law. Prisoners rioted at Strangeways; Lord Woolf was asked to find out why. His subsequent report awaits implementation. Spectacular miscarriages of justice were revealed. Lord Runciman was asked to make recommendations. His report, delivered in July, has been used as a brain-bowl from which to pick measures that suit the home secretary's mood.

Enter Lord Taylor. At the end of April 1992, a few weeks after one of the most ill-starred administrations since 1979 had been returned to office, the erstwhile Sir Peter Taylor became Lord Chief Justice.

Unlike his predecessor, Lord Lane, the new top judge is willing, anxious even, to speak his mind. Just 18 months on, he has become a serious player in the political game.

He appears at social events around town, cheerful and chatty. His demeanour is that of a public office holder campaigning to reshape parts of the law.

The new Lord Chief Justice led the assault on Lord MacKay for the latter's parsimony with legal aid. Result: zilch. He demanded more judges, and got them. He was critical of the 1981 Criminal Justice Act; his points of substance will doubtless be incorporated in a bill to be presented next month. The Judges' Party is determined that Britain shall incorporate the European convention on human rights into domestic law; if not by Parliament, then by judicial stealth. Lord Woolf, a fellow crusader for better governance, recently slipped.

In an otherwise brilliant address on the inadequacy of merely building more jails which produce more criminals, he spoke of prosecuting property owners who failed to burglar-proof their houses or cars. Enemies of the Judges' Party trained their fire upon him.

Outspoken judges are not unique in British history. A biography of Lord Denning by Iris Freeman, just published, will convince you of that. Still alive at 94, the former Master of the Rolls was to his time the most popular jurist anyone could recall. He stayed on the bench too long and made some silly mistakes towards the end of his career, but prior to that he was outstanding, the most brilliant legal mind of the century.

A grammar school boy like Lord Taylor, Lord Denning used the law creatively in order to change it. His views were made plain in many books and speeches, but he owed his appointment as Master of the Rolls to Lord Kilmuir, he of the Trappist rules for judges. "In general," says Freeman, "Tom agreed with the rules for others, if not for himself..." He was most effective on the bench, where, ever the opportunist, he grabbed at cases that he could manipulate to make a particular point. His first-class mind and encyclopaedic memory enabled him to devise fresh interpretations of both statute and, more particularly, common law.

The present generation of reforming judges may have profited from the Denning example, which, of course, they all know by heart. Like him, many of them have learnt to speak plain English, without pomposity. Unlike him, they

are not absolutely in tune with common opinion - although, to be fair, we live in a more heterogeneous society. Tom Denning, born to a Hampshire farmer in 1899 and a believing Christian, could be ever the English pragmatist. His successors must grapple with Europe, the break-up of the family, the decline of the inner city, and the social chaos we all know and love.

Lord Denning led a frontal assault on the iron rule of precedent, which obliged judges to deliver patently absurd verdicts. The Law Lords freed themselves, but not lower courts, from the rule. He insisted on reading past the text to establish what legislators intended. Today judges may at least consult Hansard. He extended the law of negligence, and defended the ordinary subject's right to compensation from ministers. He was a cockcrow: finding against a Labour trade union law here and a Conservative one there. Catholics, Jews, the Irish, blacks and others may feel slighted by some of the references in this otherwise sympathetic book. My reading of it is that, if Lord Denning harboured the prejudices of his fellow Englishmen, he did not allow them to influence his judgments.

Iris Freeman gives us a great many facts. She lists all the Denning's travels and refers to more than 150 cases. She does not, however, spend much space putting his legal achievements in context. Perhaps it is too soon. We cannot yet know which judges will have turned out to be the most effective: the cunning maverick Denning, or the more overtly political Taylor & Co. Meanwhile, if you're worried about judge-made law, elect better politicians.

*Lord Denning, by Iris Freeman, Hutchinson, 449 pages, £25

LETTERS TO THE EDITOR

Number One Southwark Bridge, London SE1 9HL

Fax 071 873 5938. Letters transmitted should be clearly typed and not hand written. Please set fax for finest resolution.

Short-term rate cut no long-term answer

From Mr Laurens van den Muyzenberg

Sir, Your editorial "Monetarism in retreat" (October 30/31) states: "France is defiantly refusing to enter the pro-growth era. It has refused the significant cut in interest rates that France's low inflation rate allows."

This is a statement typical of a continuous stream of articles in the British press, with very little resonance on the Continent. Why? The franc one-year interest rate is 6 to 5% per cent as compared with sterling 5% to 5 1/2 per cent. A difference of 1/4 percentage point. This result has been achieved by keeping the franc owners almost 20 per cent wealthier than the sterling owners.

The other side of the ocean, David Mullins, vice-chairman

of the US Federal Reserve, said last week: "I think you have to be very careful with rapid short-term rate cuts. There is a great risk that long rates react in the opposite way."

The French, English and German unemployment problems are not caused by high interest rates, but by the combination of business globalisation and lack of European competitiveness and flexibility. The jobs that have disappeared will not come back. They have migrated to other countries.

The container and the fax, which make it possible to carry out any task where best value for money is delivered, will not disappear. Investments will only be made, and so jobs created, when there is much greater flexibility in increasing and decreasing company size,

working hours, compensation, geographical mobility, acceptance of new technologies and work practices, etc.

This flexibility, combined with stable currencies and entrepreneurial enthusiasm, can solve the unemployment problems, but not another short-term interest rate cut, in France or in the UK. That is a commonly held view on the other side of the Channel.

Laurens van den Muyzenberg, management consultant, M&C

1 Queens Terrace, Windsor SL4 2AR

From Mr Jeremy Hale

Sir, Your leader "Monetarism in retreat" was confused. If monetarism really lives on in Paris, as you claim, French interest rates should now be

much lower. The authorities' broad money aggregate, M3, continues to grow very slowly (0.7 per cent year on year in August) and thus to undershoot targets (4.5 per cent). Predictably, nominal gross domestic product growth is also now close to zero. Why are short-term interest rates still above 6 per cent, or 3.5 per cent in real terms? Because the French authorities believe not in monetarism but, even now, in an exchange rate target.

Further evidence of the danger of targeting exchange rates, not of monetarism, n'est-ce pas?

Jeremy Hale, senior international economist, Goldman Sachs International, Peterborough Court, 133 Fleet Street, London EC4A 3BB

High earner an asset

From Mr Michael Spencer

Sir, Eyebrows may indeed be raised in Downing Street and elsewhere at the remuneration received by Mr Alami, head of arbitrage trading at Tokai Bank in London ("Arbitrage dealer defies recession to earn £9m", October 27). However, before the cynics get into a lather, it is worth considering what benefits, if any, Mr Alami contributes to the British economy.

First, there is the obvious point that he has highly transferable skills and could, with a phone and Reuters screen, practise his chosen trade in New York, Frankfurt, Paris or Tokyo pretty much as easily as he can in London. The fact that he works here not only helps the City in maintaining its pre-eminent position in the global financial markets but also benefits the Exchequer not immaterially. His income tax bill and Tokai's increased corporation tax liability no doubt add up to a tidy sum.

Second, arbitrage is itself an economically important activity. Without it, price imperfections and illiquidity would disadvantage market users and make the process of risk transfer less efficient. As the layers of mystery behind financial derivatives are stripped away, Mr Alami will find increased knowledge and competition making arbitrage less profitable and the markets more efficient. But by then, no doubt, he will either have retired or moved on. In the meantime we need more, not fewer, Alamouts.

M A Spencer, Intercapital Brokers, 16 Finsbury Circus, London EC2M 7JN

Unit trust buying practice at heart of system

From Sheila A Nicol

Sir, Mr Landman (Letters, October 26) has misunderstood the roles both of unit trust managers and of stockbrokers and marketmakers in running principal positions.

Far from being punished, as he suggests, such behaviour is at the heart of the trading system at the London Stock Exchange and many other financial markets, where liquidity is provided by firms which are willing to take a risk using their professional judgment of the market and buying and selling for their own account.

When unit trust managers take principal positions (which

they have to do, for example, if they are to deal on a historic basis, a service appreciated by many private investors), the interests of investors are fully safeguarded.

The price which an investor pays for units or receives for selling them is carefully regulated through detailed pricing rules drawn up and imposed by the regulatory authorities. The price will be within the same parameters regardless of whether units are created or cancelled with the trustee or the manager sells on units which have previously been sold back to him.

The independent corporate trustee who must be author-

ised under the Financial Services Act 1986 holds the unit-holders' assets and has a responsibility to ensure that investors' interests are kept paramount.

If there is a fall in the market, if the price is low and the price is again calculated according to the pricing regulations: he will receive the cancellation price applicable at that time. Investors are unaffected.

Sheila A Nicol, director, legal and financial affairs, Association of Unit Traders and Investment Funds, 65 Kingsway, London WC2B 6TD

Picture of Belarus prospects not so bleak

From Ms Roberta Feldman

Sir, Matthew Kaminski's and Anthony Robinson's article, "Belarus finds breaking up is hard to do" (October 12), may paint too bleak a picture of reform there. In fact, many economic officials at both the local and national levels are anxious to implement reforms and ready to listen to advice.

For example, the International Finance Corporation's

small-scale privatisation assistance project in the city of Brest, begun in June, resulted in Belarus's first open auction on September 29, ahead of schedule. Cities and regions all over Belarus are now requesting privatisation assistance from IFC, and the government of Belarus has requested advice on rationalising privatisation legislation, including the voucher law.

Reformers in Minsk and the provinces often want and welcome assistance. Unfortunately, western experts have so far largely overlooked Belarus in favour of its neighbours.

Roberta Feldman, task manager, small-scale privatisation in Belarus, Russia and Ukraine, International Finance Corporation, Washington DC

Strong argument for relaxed management style

From Dr George Fieldman

Sir, The psychological research published in the FT (Recruitment, October 27) on problem-solving styles indicated that a goal-orientated or task approach is less productive than an interest-orientated or paratelic approach. This finding is fascinating indeed and, if confirmed by other studies, has important implications both for managers and for management training.

It is a powerful argument for relaxed management styles which encourage staff to follow their own insights and intuitions, at least for tasks which involve problem-solving. Such an approach is also likely to reduce psychological strain in staff which, in turn, should promote their physical and psychological well-being.

So much then for the dogged Thatcherite influence upon management. In this view

external pressure was seen as the principal means of promoting British economic productivity: what an appalling waste that may have turned out to be. Of course, the notion that people can be brow-beaten into world-class performance always lacked credibility.

George Fieldman, St George's Hospital Medical School, Department of Psychology, Cranmer Terrace, London SW17

It seems we merged to be the best of both banks.

Merger announced November 2, 1992
Situation as of November 2, 1993:

Euromoney:

No. 1 in Dutch Equity Research
No. 1 in Equity Execution
No. 1 in Economic Research

Global Custodian International:

No. 1 Dutch Custodian Bank

Institutional Investor:

No. 14 in European Mergers & Acquisitions

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Tuesday November 2 1993

Tip of Japan's debt iceberg

IT WOULD be childish not to be generous in praise of the Japanese authorities' macroeconomic management over the past three years. The Bank of Japan has succeeded in using both interest rate cuts and arm-twisting - in maintaining financial order following the 1990 Tokyo stock and property market collapse. The Ministry of Finance, after some prompting, has used both administrative measures and three fiscal injections to put a floor under share prices and prevent a slump. Faced with similar problems, the US, UK and Scandinavian countries have all suffered recessions. Japan, by contrast, has just about kept growth alive.

It is against this background that the significance of the bankruptcy of Muramoto Construction should be judged. The collapse of the Japanese property market, leaving ¥500bn in unpaid debts, may be the largest bankruptcy in Japan since the second world war. What is surprising is that there have been so few Muramotos, given the scale of Japan's property market collapse.

Airbus Ltd

TO THE Anglo-Saxon eye, the structure of Airbus Industrie is an oddity. The four-nation aircraft group is not an ordinary limited company with its own balance sheet and profit-and-loss account but a marketing consortium, whose shareholders own the group's assets and share out the lion's share of the manufacturing contracts. To outside observers, its accounts are opaque and its manufacturing decisions often seem excessively influenced by political considerations.

Russian land

PRESIDENT BORIS Yeltsin's decree last week, giving Russia's collective and state farm workers the right to buy, sell, lease and pass on their share of the land, is an unambiguously good move. It gives Russian peasants a long-awaited right - and one long blocked by the now defunct Russian parliament - to emancipate themselves from state-serfdom and to become farmers, or to sell that right to others.

Privatisation of farmland is one of the most essential steps towards building a market economy, but in Russia it has been particularly problematic, thanks to the conservatism of farm directors and to the inertia of the peasants themselves. Subsidies to inefficient state farms are a huge burden on the state budget. Privatisation will push them into the free market, which is already growing as the more enterprising make deals for their produce with traders and middlemen.

But this is only the beginning. People long ago forced into a style of agriculture which emphasised dependence on the state and which criminalised initiative cannot suddenly become efficient producers of food. Like Soviet industry, Soviet agriculture has been pounded into its present shape over decades: that shape is visible in the vast acreage of most farms, in the huge obsolescent tractors and combines and, most of all, in the inadequate storage facilities and hopeless roads via which a quarter of all production is lost.

loans represents four times last year's operating profits of the 21 city banks. Meanwhile, the Co-operative Credit Purchasing Company (CCPC), the agency set up last year without public money in order to remove non-performing loans from bank balance sheets, is moving at a slow pace. Between February and the end of September, it purchased loans with a face value of a mere ¥1,050bn.

Of course, as the Bank of Japan points out, the evidence that Japan is currently facing a credit crunch is far from conclusive. Yes, bank lending is falling and the broad money supply is barely growing. But, with Japanese companies themselves restructuring after the over-investment of the late 1980s, the demand for credit is hardly buoyant.

Moreover, the Bank of Japan is probably right to claim, citing the Muramoto Construction liquidation as an example, that the disposal of these non-performing loans can occur gradually, in orderly fashion, without a risk of systemic crisis in Japan's financial markets. And the bank is understandably worried that a publicly financed bail-out of the banking industry would generate moral hazard problems, although a few more resignations by senior bank officials would help.

Yet unless the Bank of Japan provides funds to capitalise the CCPC, it will take years rather than months for Japan's bad debt iceberg to thaw and melt. And until the banks are restored to health, the prospects for economic recovery will remain poor.

A second, equally important reason for converting to a limited company is that it would help improve efficiency and so enhance Airbus's chances of competing successfully in world markets. If Airbus owned its assets, it would find it easier to control costs. It would also have greater freedom to follow commercial considerations in awarding contracts to suppliers.

At a time of deep recession in the airline market, the need to compete aggressively for orders is particularly strong. Boeing has already embarked on a far-reaching efficiency drive. Airbus's partners are doing the same, but not uniformly or with the same vigour. One worrying sign is that Airbus has suffered a fall in net orders so far this year, while Boeing's order book is still rising.

Although Mr Pearson has now been persuaded of the case for speedy reform, this does not mean that the political battle has been won. The French government, in particular, will be reluctant to lose influence over Airbus's operations. But if greater freedom is necessary to secure Airbus's future, that is a price worth paying.

The Nizhny Novgorod region, test bed for reform in association with the International Finance Corporation, shows how much preparation is needed for a successful transition. There, the owners are being guided towards auctions in a week's time which should see the emergence of a group of medium-sized farms run by farmworkers and bosses, with privatised machinery bases providing them with services. This approach will no doubt serve as a model, but will not be available in many parts of Russia.

The state must thus play an active role for some time to come - backing up the right to buy and sell, ensuring that conservative directors do not render it meaningless. Mr Yeltsin's decree creates a state inspection service with this task: like the relatively successful state property committees, this must guard itself for prolonged and potentially disruptive conflict with vested interests, region by region.

Most contentious of all will be the sale of land to foreign companies - though the decree clearly allows this, in association with Russian partners. The taboo has to be broken if foreigners are to be encouraged to become part of Russian reform. The first signs of confidence are returning to foreign companies after the roller-coaster of the past two years. Provided it is properly implemented, this measure could do more than any other to strengthen it, and at last begin to raise the Russian economy from its sickbed.

Mr Zhu Rongji, China's economic supremo, can scarcely have encountered more testing times than these in his stewardship of the Chinese economy. Nor can China itself have entered a more critical phase in seeking to expand its economic reforms.

When Mr Zhu surfaced in Shanghai a few days ago to open a bridge, it marked one of the very few recent public appearances for a man rarely out of the news in the first half of this year. China's senior vice-premier has had much on his mind, and on his plate, since he unveiled in July a 16-point austerity programme to control China's overheating economy. For the measures - which have raised interest rates, curbed speculative real estate investments and imposed a credit squeeze on state enterprises - have antagonised entrenched interests in the central bureaucracy, and among powerful local officials.

Under pressure from the provinces, and from the state enterprise lobby at the centre, Mr Zhu, who in June assumed the role of governor of the People's Bank, the central bank, has begun to ease monetary policy. The bank loosened credit restrictions in August and September, allowing money in circulation to grow by ¥1,010bn (\$1.75bn) compared with ¥1,460bn in the same period last year.

As the Communist party prepares for the crucial third plenary session later this year of its 14th Central Committee, an important policy-making body, there are two questions: have Mr Zhu and his reformist colleagues managed to preserve the integrity of measures advanced to cool an overheating economy; and perhaps more important, have they laid the groundwork for progress towards the next phase of the economic reform programme.

At this preliminary stage it appears that Mr Zhu, having weathered harsh criticism over some aspects of his austerity package, is close to seeing a fairly ambitious programme for reform of the banking, finance, and trade sectors adopted by the third plenum. China is planning to stiffen the regulatory functions of the People's Bank to enhance its authority over monetary policy and enable it to concentrate primarily on fighting inflation; to unveil a radical reform of the taxation system, including the introduction of a new revenue-sharing formula between the centre and the provinces; and to further liberalise trade to satisfy requirements for accession to the General Agreement on Tariffs and Trade. However, reform of crumbling state enterprises remains a murky area, and Mr Zhu may well have been obliged to back away from measures that would bring further hard-

Tony Walker and Edward Balls on the trials of China's reformists as they try to cool an overheating economy

Big chopper falls with a thud

ship to loss-making industries.

Little has emerged publicly of the heated debate within the Chinese leadership over the way ahead, but interviews conducted by the Financial Times with influential figures in economic policy-making have given a flavor of the intensity of discussions. Mr Zhu, at a series of stormy private meetings in Beijing and the provinces, has been forced to defend his actions, especially those that have squeezed funds for state enterprises, some of which are encountering severe difficulties.

Mr Dong Fureng, a member of the standing committee of the National People's Congress (which acts like the UK cabinet), and a leading economist, was surprisingly forthright. "Personally, I think Zhu Rongji's macro-control measures should be more flexible. Banks should quicken steps to provide loans to troubled enterprises. The negative effects are growing. If he is more flexible now, the economy will pay a lower price in the end."

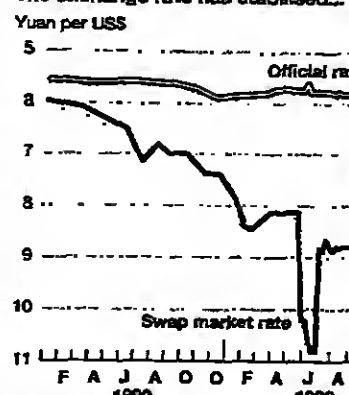
Other prominent officials such as Mr Ye Sen of the Commission for Economic Restructuring were more circumspect, although they made little attempt to disguise their misgivings. "It is very necessary to have macroeconomic controls, but we have to distinguish different situations. We cannot just cut with one big chopper," he declared.

Mr Zhu's "big chopper" - a reference to the heavy-handed kitchen utensil wielded by Chinese cooks, has certainly fallen heavily. But it has fallen less discriminately than Mr Zhu may have wished. His credit restrictions were aimed at recalling loans made to the "hot money" areas of the economy, such as speculative property ventures. Commercial banks have since struggled to recover real estate loans, so instead have recovered funds from profitable state enterprises, which depend on bank credit to finance their working capital.

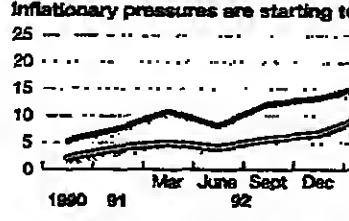
A significant proportion of the new credit which the government has released since September have been directed to state enterprises, many of them faltering industries which need continuous cheap loans to stay afloat. Such a move may make political sense, but hardly squares with Mr Zhu's policy of

China: heading for a hard landing?

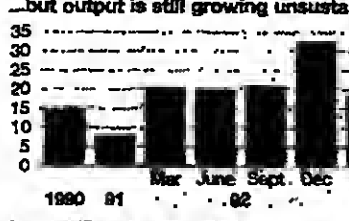
The exchange rate has stabilised...



Inflationary pressures are starting to subside...



...but output is still growing unsustainably fast



Source: IMF, government sources

redirecting investment towards profitable enterprises. Commercial bank portfolios are bulging with what the Chinese classify as "overdue" loans, but are, in effect, non-performing.

In defence of his measures, Mr Zhu is likely to have argued that initial gains in restraining unsustainable economic activity, and puncturing what had become known as the speculative "bubble economy", vindicate his approach.

His 16-point plan has, in effect, put an end to illegal interbank lending through financial intermediaries such as bank-controlled trust



Zhu Rongji

and investment companies - so-called "triangular debt", drawn funds back into the banking system by clamping down on the issuance of enterprise bonds; and stabilised the exchange rate in currency trading houses known as "swap centres". The exchange rate slipped to nearly ¥11 to the US dollar in June, while the black market rate depreciated even further. But higher interest rates and central bank intervention have since stabilised the exchange rate at about ¥8.7 to the dollar, while some exporters complain that it is increasingly hard to sell their for-

ign exchange. The austerity package has also taken some of the steam out of inflation. Annual inflation in the 35 main urban centres was 20.7 per cent in September, down from 23.3 per cent in July. Prices of commodities are also down sharply. For instance, steel prices fell by 34 per cent in the third quarter. Retail sales growth has also moderated.

Mr Zhu has also managed to find the money for infrastructure projects which were starved of funds in the first half of the year and, perhaps more important, he has ensured that restive farmers are being paid promptly for produce acquired by the state. Delays in honoring commitments to peasants had provoked political unrest.

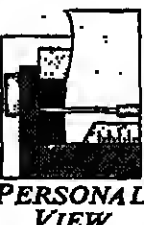
In the six months to June, only 19 per cent of big construction projects under the present 1991-95 five-year plan were being adequately funded. The figure had risen to 70 per cent by September. However, fixed asset investment fell by more than 10 per cent in August over July, although the heavy capital spending of the early part of the year resulted in a nearly 70 per cent increase in the eight months to August compared with last year.

But Mr Zhu is not out of the woods yet. World Bank officials express concern that monetary policy has been loosened, even though inflation remains high and industrial output and retail sales are both rising by more than 20 per cent a year. Meanwhile, senior leader Deng Xiaoping's recent reported intervention in the economic policy debate to urge a commitment to reform and to continued economic growth was seen as a possible strike against party conservatives.

The reformists are engaged in a delicate balancing act: they must exercise continuing restraint over an economy expected to grow by 13 per cent this year; at the same time they must confront the political difficulties associated with pressing further ahead into the uncharted waters of China's reform process. Mr Zhu will be worried that in his attempts to restrain activity he risks a hard landing, which may impede his ability to implement the reforms necessary to avoid another boom-and-bust cycle; but if he yields too much ground to those urging an easing of credit he risks a resurgence of inflation.

"Zhu Rongji has a much bigger agenda than slowing the economy," said a western official in Beijing. "Without the next stage of reforms of the institutions of macroeconomic policy, he knows that China will continue to run the risk of excess demand and instability... He is trying to put the thread through the eye of a very small needle."

Nuclear answers need right questions



PERSONAL VIEW

The government review of the UK nuclear industry, scheduled for 1994, and then brought forward to 1993, is getting off to a slow start.

The Department of Trade and Industry and the Department of the Environment disagree about the scope of the terms of reference and discussions are stalled awaiting the decision on whether the Thorp reprocessing plant is to go ahead.

The terms of reference could be narrow, as Mr Tim Eggar, energy minister, hinted in June, when he identified the central question as "Would new nuclear power stations be commercially viable in the UK... without any subsidy from government or taxpayer." A narrow review is unlikely to do more than conclude that the industry may build new plant if it can find private capital. With such terms of reference the review will be futile.

Nonetheless, this is apparently the route that government would

like to take, because it is consistent with the market-led energy policy, stoutly reaffirmed in the White Paper, *The Prospects for Coal*. The danger of a market-led policy is that it is at the mercy of market distortions. These distortions are serious in the energy sector, and have led to the perverse closure of viable coal mines and power stations while gas-fired plants are opened at higher costs. Taking the same approach to the nuclear industry is likely to have the same effect.

The situation is pressing. The ageing and obsolescent Magnox plant and, very soon, the first of the advanced gas-cooled reactors must be replaced if the nuclear industry is to have a future, and if it is to continue to make the 20 per cent contribution to UK electricity supply wisely proposed by the then energy secretary, Cedd Parkinson, when he designed the privatisation of the electricity supply industry.

Many advantages of nuclear power are not expressed in the marketplace. Supply is secure compared with natural gas, which in the next few decades will have to be brought from ever-more remote

areas. Nuclear electricity is one of the few energy forms which pays its environmental costs. If the idea of climate change arising from the greenhouse effect is taken seriously, then it is important to be able to express this benefit in decision-making.

In the US, Congress has written into the 1992 Energy Policy Act the idea of integrated resource plan-

ning, which will provide the means to measure the social impact of energy planning. Something similar is needed in the UK. The review offers the opportunity to develop acceptable means of incorporating non-market factors into decision-making to establish a balanced portfolio of cost-effective, clean and secure energy sources.

It is one thing to establish what

should go into this portfolio; it is another to achieve it in a sector that is largely privatised and market-oriented. The City would not be buying nuclear generators the next time round. In the event Nuclear Electric and Scottish Nuclear performed well, with output per employee rising by more than 50 per cent in three years, and costs falling and profits rising rapidly.

But the fundamental obstacles to privatisation remain: the perception of possible liabilities from decommissioning, fuel reprocessing and waste disposal are intimidating for private investors. There is still uncertainty about the cost of electricity from any new nuclear plant. We believe that electricity from a Sizewell C can be competitive with gas, but it is a question of convincing prospective investors. The main economic advantage of nuclear is that, once built, the fuel costs are low and stable and, therefore, so is the price of electricity.

A new nuclear plant is unlikely without government support. Government must find mechanisms which are coherent with Brussels' competition policy.

Instruments are available. Funding could be by issuing hypothecated government-backed bonds; access to markets could be facilitated by obliging regional electricity companies to contract part of their requirement over, say, 30 years; licences for the construction of power stations could be auctioned, with conditions specifying fuel choice, giving government influence over the type fuel burnt, while maintaining competition.

But the best answers will not be found without asking the right questions. The first step is a broad review seeking the methods of measuring the social impact of energy choices and then the means of implementing the desirable choices.

Ian Fells and Nigel Lucas

The authors are, respectively, professor of energy conversion, University of Newcastle-upon-Tyne, and professor of energy policy, Imperial College of Science, Technology and Medicine

Sir Peter, QED

One might have thought Sir Peter Middleton, Danish former permanent secretary to the Treasury, would have delighted Bank of England directors last week with his wholly unexpected remarks about the desirability of Bank independence. But the terms in which he couched his remarks have done nothing to endear the waspish ex-mandarin to several directors of the court.

In evidence to the Commons Treasury and Civil Service Committee last week, Sir Peter outlined that the composition of the court would have to be changed if the Bank were to assume control in setting interest rates. In particular, all the members would have to be committed to fighting inflation, he went on, "unlike the present mob who look rather like a pressure group in the opposite direction".

Sir Peter, who did not return telephone calls to elaborate on this statement, was doubtless referring to the widespread assumption that many industrialists are less than fanatical about keeping inflation at bay, believing that a degree of price pressure may oil the wheels of the economy.

False, say the outside directors. Sir Christopher Hogg, chairman of Reuters, says he considers the remarks "very strange", while Sir

John "Chips" Keswick, chairman of Hambro Bank, says he has "never met an industrialist either on the court or off it who doesn't think inflation is appalling". Another court member thought Sir Peter was being "fatuous". The longest-serving Bank non-executive, Sir Adrian Cadbury, termed Sir Peter's comments "totally incorrect".

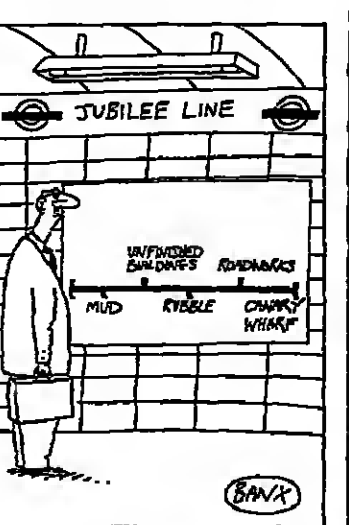
Sir Peter does have the occasional tendency to upset people, which may have been one of the things that counted against him when he was supposedly in the running for the governorship of the Bank before Eddie George was chosen.

Lack of the Irish

The London office of the European Parliament, doing its bit to celebrate the onset of Maastricht, yesterday invited an expert from each of 10 states of the European Community - sorry, Union - to talk to the press about their new-found rights both to vote in next year's Euro-elections as well as to participate in local polls at a later stage. Somehow missing from the line-up was Ireland.

Joëlle Geriaud-Maylam, elected representative of the French community in the UK and Ireland, went on the defensive by explaining that, while Ireland's ambassador had been invited, the Irish did not actually need to take part in this particular celebration since "for historical reasons" they have had

OBSERVER



the vote in the UK for many years. But this failed to satisfy one Irish member of the audience, who suggested that they could have hastily substituted "any Irish building labourer" in the event of the ambassador's no-show. "But I suppose alongside all those lawyers and actors, that would have been a bit embarrassing."

Stationary

More klaxons wailing in the long-running offensive between Northumbria Ambulance Service's chief executive Laurie Caple and his critics.

Labour MPs from the north-east, bitterly opposed to Caple's management style and his enthusiasm for commercial income-generation schemes, have tabled an early day motion drawing attention to the latest in a series of tussles over subjects ranging from employees' conditions and dismissals, to the auditing of NAS accounts and the purchase of personalised NAS number-plates.

It transpires that the £70,000 American-made Chevrolet ambulances ordered by NAS do not fit into some of its more modestly proportioned garages. "There's an element of farce about it all, but it clearly calls into judgment the competence of the original decision to buy the vehicles," says Newcastle Central MP Jim Cousins.

But NAS will have none of it. We've only ordered six, it says, and they will happily fit into 19 of the 24 garages.

Observer just hopes that the right ambulance will be in the right garage at the right time.

Panoramic view

Former KGB major-general Oleg Kalugin had reason to fear arrest throughout most of his eminent spying career, not least during his stint as a Soviet agent in the US. His escape from punishment at the hands of the KGB itself, when he publicly exposed its ruthless methods in 1980, was also

something of a feat. So he can't have been expecting the handcuffs to snap shut at Heathrow airport over the weekend as he tried to slip into Britain on a brief visit.

Kalugin may not have been up to his old spying tricks, but the British authorities could have been unsettled by his latest counter-espionage mission - taking up the invitation of the BBC's Panorama programme to talk about MI6.

Perhaps they were serving Kalugin, who was later released, a note-too-subtle hint that the kind of frankness he had demonstrated in exposing the KGB's deeds was less than welcome in the west.

Alternatively, Kalugin's troubles may date back to the interview he gave to *The Mail* on Sunday in April. Therein, he took it upon himself to spill the beans as to how the KGB had supplied Bulgarian "colleagues" with the infamous umbrella that fired poisoned pellets to kill a dissident in London 15 years ago.

Kalugin described the weapon in detail; he also revealed that it had been tested by his department first on a horse, which died, and on a man, who didn't.

Blindly obvious

How many PR men does it take to change a light bulb? "None that I am aware of, but that's a personal view."

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INSIDE

Union asks Volvo to postpone merger

A Swedish trade union leader has called on Volvo to postpone next week's vote by shareholders on the proposed merger of its car and truck operations with Renault, saying more time was needed to assess the deal. Union support is important to Volvo because many top labour figures sit on the boards of shareholder institutions. **Page 22**

Norway's lifelines may not gain

Christiana Bank and Den norske Bank, Norway's two biggest banks, were forced to their knees last year under the burden of losses and the state threw them lifelines in the form of funding. A year later, the banks are on the road to recovery and planning share issues which could net the state large windfall gains. **Page 22**

Upjohn outperforms

Upjohn, America's 12th largest drug group, has been one of the best-performing US pharmaceutical stocks this year. The outperformance is based on the belief that the group has become a takeover candidate. **Page 25**

ST dwarfs the market

Singapore Telecom (ST), the telecommunications and postal utility, made its debut on the Singapore stock market yesterday, quickly dwarfing other companies and accounting for about half the total valuation of the market. **Page 26**

ASW issues warning

Shares in ASW Holdings fell 41p to 147p yesterday after the Welsh-based steel products group issued a profits warning because of rising scrap prices and lower selling prices in the continental European market. **Page 28**

Bass buys into Czech brewer

Bass, the UK's leading brewer, is to acquire a 34 per cent stake in Prague Breweries, the second largest brewer in the Czech Republic, for £29m (£13m). **Page 29**

Xerox claim threatens silver

Silver's biggest market could be threatened in the long term if Xerox's claim to have developed a silver-free film process is justified, said analysts yesterday. Worries about the Xerox breakthrough forced silver's price in London down by 15 cents a troy ounce, or 3.4 per cent, to 423.5 cents yesterday. **Page 30**

JR East out of favour

East Japan Railway, which initially traded in Tokyo at ¥600,000, lost ¥28,000 to ¥572,000, slipping below the psychological support level of ¥500,000 for the first time since its debut on Tuesday. The drop forced the Nikkei average down 1.3 per cent. **Back Page**

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Market Statistics

Base lending rate	4.25	London share index	3537.5
Headline Govt bonds	27	US 10-year Treasury	101.125
FT-100 index	27	London 10-year Treasury	101.125
FT-100 world index	27	Managed fund services	38.42
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FT 1000 world index	27	World commodity prices	43
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Bradford & Bingley	28	McDonnell Douglas	21
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Challenge Bank	28	McDonnell Douglas	21
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Compass	28	McDonnell Douglas	21
ConAgra	28	McDonnell Douglas	21
Conrad Hilton	28	McDonnell Douglas	21
Courtauld	28	McDonnell Douglas	21
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Fokas Bank	28	McDonnell Douglas	21
Foster's Brewing	28	McDonnell Douglas	21
GR Holdings	28	McDonnell Douglas	21
Grundig	28	McDonnell Douglas	21
Hadrian Lactation	28	McDonnell Douglas	21
Hartford Aycock	28	McDonnell Douglas	21
Hyatt International	28	McDonnell Douglas	21
Wilton Group	28	McDonnell Douglas	21

Chief price changes yesterday

FT 100	27	FT 1000	27
FT 1000	27	FT 1000	27
FT 1000	27	FT 1000	27
FT 1000	27	FT 1000	27
FT 1000	27	FT 1000	27
FT 1000	27	FT 1000	27
FT 1000	27	FT 1000	27
FT 1000	27	FT 1000	27
FT 1000	27	FT 1000	27
FT 1000	27	FT 1000	27

London (Pence)		Stanley Leisure	249	20
City Capital	205	Telegraph Tech	317	11
City Capital	205	Telegraph Tech	317	11
City Capital	205	Telegraph Tech	317	11
City Capital	205	Telegraph Tech	317	11
City Capital	205	Telegraph Tech	317	11
City Capital	205	Telegraph Tech	317	11
City Capital	205	Telegraph Tech	317	11
City Capital	205	Telegraph Tech	317	11
City Capital	205	Telegraph Tech	317	11

Capital Cities in stock buy-back

By Frank McGuire in New York

CAPITAL Cities/ABC has offered to buy from its shareholders up to about 12 per cent of its existing common stock which could cost the cash-rich group between \$1.15bn and \$1.25bn. The move stands in contrast to the emphasis within the US media industry on building technological alliances through acquisitions and joint ventures. Capital Cities, which owns the ABC television network, also

announced yesterday its president and chief executive, Mr Daniel Burke, 64, would retire in February. Mr Thomas Murphy, chairman, will assume the duties of chief executive while continuing in his current position. The enhanced role for Mr Murphy, 63, is surprising. Industry observers had expected Mr Robert Iger, who as president of the television network helped increase the profitability of its prime-time programming, to be given at least one of Mr Burke's titles.

Under terms of the tender offer, Capital Cities has invited shareholders to specify a price - within a range of \$830 to \$930 a share - at which they are willing to sell their stock. Assuming the offer - known as a Dutch auction - generates sufficient interest, the company will then determine the lowest price at which it would be able to buy shares and proceed with the purchase of all shares offered at or below that price. On Wall Street early yesterday,

the shares were \$65 higher at \$815 in light trading. Capital Cities said it had decided to make the offer because it was the most attractive use for its cash surplus of about \$1.2bn. "Acquisitions have not been available at prices the company believes would result in attractive returns for its shareholders," said the company. It said that after the stock repurchase it would have ready access to sufficient capital to pursue

attractive investment opportunities that may arise. The company added it had already paid off all of its long-term debt currently available for repayment, including about \$500m in liabilities this year. Mr Peter Appert, an analyst with C.J. Lawrence, the New York securities house, said the offer shows Capital Cities is going to stick with its financial discipline and not get sucked into the euphoria over consolidation and acquisitions.

William Dawkins looks at the effects of the fall of Muramoto Construction

Shock runs through a debilitated system

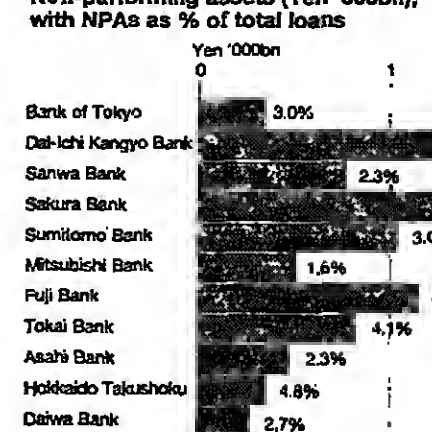
Yesterday's ¥590bn (\$4.5bn) collapse of Muramoto Construction, Japan's largest since the second world war, sends a chill through the banking industry at the worst possible time. The big question hanging over the Japanese banking system yesterday was whether the damage from Muramoto would be localised, or whether the harm to its 50 bank lenders would trigger other collapses among construction industry suppliers. Bank of Japan and finance ministry officials last night played it down, predicting that the collapse was unlikely to destabilise Japan's financial system.

announcement of the steepest decline in construction orders among the top companies for 15 years - down 22.3 per cent in the six months to September, according to the Japan Federation of construction contractors. Currently, both demand for and supply of credit are weak across the economy. Industrial companies are reducing investment and cutting excess capacity built up during the latest 1980s, while banks are keen to avoid adding to their already heavy bad loans.

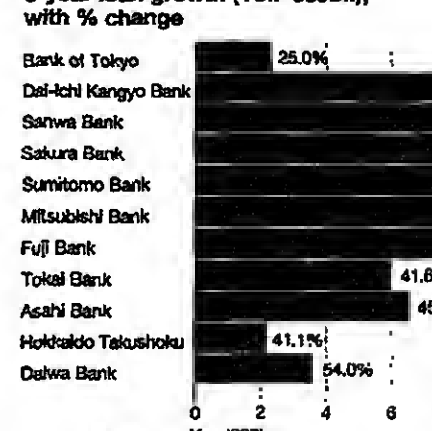
The top 21 banks' bad debts new can hardly encourage banks. It was unclear exactly what triggered Muramoto's lenders to withdraw their support when many other financially shaky construction and property companies continue to be kept afloat by their banks. Muramoto began work on a debt restructuring last April, with its two main creditors Daiwa Bank and Nanto Bank, the main regional bank in Nara prefecture where the company is based. Muramoto has close links with Nanto bank, as the bank's second largest shareholder, with a 2.5 per cent stake.

Japanese bank exposure

Non-performing assets (Yen '000bn), with NPAs as % of total loans



5-year loan growth (Yen '000bn), with % change



could be localised, rather than being read as a more worrying signal that banks are unable to afford the continuing risk. Until yesterday, Muramoto was an obscure unquoted family-controlled company, Japan's 24th largest construction group, virtually unknown outside Nara prefecture, where it is a pillar of the industrial establishment. Founded in 1908, it has 2,200 employees and recorded sales of ¥231.5bn in the year to June, on which it made a ¥2.8bn loss, due to heavy interest payments.

If previous failures of this scale are any guide - such as the ¥520bn collapse of the Sanko Steamship shipping company seven years ago - Muramoto's creditors will now attempt to rebuild the remnants into a going concern. It took Sanko Steamship's banks four years to restart the company, the largest post-war bankruptcy at that time. Muramoto lawyers were yesterday quoted as saying that it would take 10 to 15 years to restructure the construction group.

McDonnell Douglas beats recession and expectations

By Martin Dickson in New York

McDONNELL DOUGLAS, the US aerospace group, yesterday reported a record third-quarter earnings of \$142m. It also forecast it would top Wall Street's expectations for the full year, despite the sharp downturn in US defence spending and a recession in the civil aviation industry. The results underscore a year-long financial recovery at McDonnell Douglas, helped by a large cost-cutting programme. Its shares rose \$2 on the New York Stock Exchange, to stand at \$95 at lunchtime.

from \$3.89bn to \$3.43bn. Its military aircraft operations made \$1.42bn, compared with a \$1.68bn loss. Commercial aircraft made \$16m, down from \$37m, and missiles made an unchanged \$65m, despite a \$17m pre-tax charge for electronic systems problems. The figures were affected by various special items, resulting in a net unusual gain of \$41m. Stripping this out, the company made \$101m, or \$2.57 a share in the quarter, and \$308m, or \$7.85 per share in the first nine months of the year.

The period saw further improvement in the company's balance sheet, with debt of its manufacturing side falling \$369m to \$1.97bn, 29 per cent lower than at the start of 1993. Mr Herb Lanes, finance director, said the company's self-imposed aims of cutting debt to \$1.8bn by year-end and generating \$1bn in 1993 cash flow, now appeared conservative. So too were Wall Street forecasts that the group would earn \$10.73 a share from operations for the full year, or \$2.93 in the final quarter. The company expected to top the record \$3 a share it earned in the final quarter of 1992. These figures exclude any charges the company might make for the C-17.

McDonnell announced last week that such a settlement could mean a \$450m pre-tax charge against earnings but would not mean a significant cash impact and would allow the C-17 programme to continue. Congressional officials have suggested the initial programme size could be cut from 120 aircraft to 40.

The earnings worked through at \$3.62 a share, compared with a loss of \$42m, or \$1.05 a share, in the same period last year, when McDonnell Douglas took a \$167m after-tax charge on the C-17 military transport. Revenues dipped

from \$3.89bn to \$3.43bn. Its military aircraft operations made \$1.42bn, compared with a \$1.68bn loss. Commercial aircraft made \$16m, down from \$37m, and missiles made an unchanged \$65m, despite a \$17m pre-tax charge for electronic systems problems.

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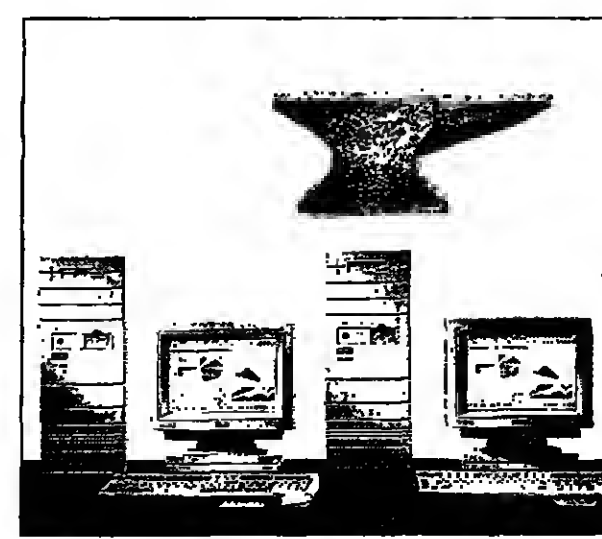
Hotel valuations cause a stir

By Andrew Jack and Michael Skapinker

ASK UK chartered surveyors have become a talking point in the profession. One surveyor said: "It doesn't help our reputation, but there are very few incidents where you have a disagreement as large as this." The Royal Institution of Chartered Surveyors, which produces the red book, has launched an investigation into the differences. Officials stressed, however, that there was no evidence the two firms had breached its valuation guidelines. A number of factors may explain the divergent figures. The hotel sector was in decline during 1992, which could account for the fall between the 1991 and the draft 1992 Weatherall valuations.

rooms in 189 hotels, in the UK, Germany, France, the Netherlands, Belgium and the US. The size of the discrepancies has become a talking point in the profession. One surveyor said: "It doesn't help our reputation, but there are very few incidents where you have a disagreement as large as this." The Royal Institution of Chartered Surveyors, which produces the red book, has launched an investigation into the differences. Officials stressed, however, that there was no evidence the two firms had breached its valuation guidelines. A number of factors may explain the divergent figures. The hotel sector was in decline during 1992, which could account for the fall between the 1991 and the draft 1992 Weatherall valuations.

tions. Weatherall's 1992 estimates were prepared several months before those made by Jones, by which time the market had deteriorated further. Equally, it is unclear whether the two sets of figures were prepared on the same assumptions. Jones may have been asked to estimate a worst-case for sale of hotels in the current depressed market, while Weatherall may have assumed the hotels did not need to be sold. Mr Russell Kett, an associate with the hotel and leisure consulting division of Touche Ross, says: "The reason that many hotels have gone into receivership in the last two years is as a result of properties being ascribed values which have proved unsupportable against their debts."



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INTERNATIONAL COMPANIES AND FINANCE

Union leader urges delay for Volvo merger meeting

By Hugh Carnegie
in Stockholm

A SENIOR Swedish trade union leader yesterday called on Volvo to postpone next week's vote by shareholders on the proposed merger of its car and truck operations with France's Renault. Mr Peter Nygard, head of the white-collar union SIF, says more time is needed to assess the deal.

The SIF has more than 5,000 members employed at Volvo. Mr Nygard was the first national trade union leader to publicly voice doubts about the merger, which has run into still resistance from the Swedish institutional shareholders who will decide the issue at a special shareholders meeting called for November 9.

"[Postponement] is the only reasonable way, as there are today too many large uncertainties about how the merger will function in practice," Mr Nygard said.

Union support has been extremely important to Volvo because many top labour figures sit on the boards of shareholder institutions.

The SIF leader is a member of the board of the Fourth Fund state pension fund, which is the second-largest Volvo shareholder after Renault, with 7.5 per cent of the voting capital. The Fourth Fund is due to announce tomorrow how it will vote on the Renault-Volvo merger. Its decision is widely reckoned to be a key indicator of whether the deal will stand or fall.

Mr Nygard is also on the board of the insurance group SPP, which has 4.5 per cent of Volvo's voting capital and is also due to announce its final decision this week.

Volvo was under strong pressure from shareholders yesterday to provide further clarification of how it will secure its interests in the merged company.

Volvo will have a 35 per cent share. However, Swedish shareholders are concerned by a lack of guarantees that state-owned Renault will be privatised as promised and by provisions attached to a subsequent "golden share" held by the French state. They fear this could be used in future to limit Volvo's shareholding to 20 per cent of Renault-Volvo.

Volvo acknowledged the company faced a "Catch 22" on the issue.

Swedish shareholders have suggested postponing the merger until after privatisation, saying Volvo's share cannot be fully evaluated until Renault is a quoted company.

However, Volvo has accepted the French case that Renault cannot be properly valued for privatisation until the merger is in place.

Greece to sell casino licences for Dr80bn

By Kerin Hope in Athens

THE Greek government hopes to raise at least Dr80bn (\$343m) from the sale of eight new casino licences to international operators by the end of this year.

Although the new socialist government has halted most projects included in its predecessor's privatisation programme, the casino scheme is to go ahead as planned, according to the economy ministry.

Byatt International, Sheraton, and Conrad Hilton are among 16 bidders shortlisted to set up and manage casinos in Athens, Thessaloniki and the resort islands of Corfu, Crete and Mykonos.

Under the licensing terms, the Greek state will take a 20 per cent cut of the casinos' earnings. Remaining profits will be taxed at the local corporate rate of 35 per cent. The licences will have a 15-year duration.

In addition to producing estimated revenues of at least Dr120bn yearly, the casino project will upgrade Greece's tourist industry by ensuring investment in luxury hotel facilities.

Under the terms of the licence, the casino operators would construct or refurbish hotels or resorts where the casinos are to be located.

Byatt Casino Corporation, the group's gaming subsidiary, would invest \$200m in a luxury hotel and casino on a greenfield site in an Athens suburb. ITT Sheraton is bidding to acquire Ionian Hotels, the state-controlled company which owns the Athens Hilton.

Conrad Hilton of the US would invest up to \$300m in building a casino complex and new hotel at a state-owned resort at Vonnigmen near Athens. The company has signed a contract to manage the resort, in association with the Alex Spanos group, a California-based property developer.

Greece's three existing casinos, which are operated by the state tourist authority, would shut down to make way for the private operators.

Norway banks see a brighter day

Lower interest rates helped Christiania Bank and DnB return to health a year after they were on their knees, writes Karen Fossli

Christiania Bank and DnB, Norway's two biggest banks, were forced to their knees last year under the burden of large losses. In desperation, the state threw them lifelines in the form of funding to enable capital adequacy requirements to be met.

One year later, the banks are on the road to recovery and planning share issues which could net the state large windfall gains.

Analysts have warned the government against dumping its shares in the market at the same time as the banks' issues are launched.

At current prices, the state's shareholdings in the two banks are worth about Nkr17bn (\$2.4bn).

According to Mr Ole Lund, DnB's chairman, the bank is approaching the "sunny side of life" but is not yet there. DnB's high volume loan losses and non-performing loans are still lingering at unacceptable levels.

Hopes are to reduce the level of credit losses during the next 14 years by 50 per cent to about Nkr1.3bn.

On Tuesday, DnB published its second annual report since being formed from a merger in 1990 between Den norske Creditbank and Bergen Bank. Pre-tax profit of Nkr720m for the nine months to September was achieved, against a pre-tax loss of Nkr2.45bn last year. CBK is due to report nine-month results on November 4 and could, on the same day, announce the details of its planned share issue.

The sharp improvement in the banks' health is due mainly to the low level of domestic interest rates, a marked rise in the domestic stock market, steady recovery of Norway's economy and emerging results of the past five years' hard slog of consolidation and restructuring.

"Nobody last autumn would have believed we would have had the level of interest rates which we see today and if it had been suggested, the forecasters would have been quickly escorted to the nearest hospital for examination," Mr Lund said.

Norway's central bank has cut the important overnight lending rate 13 times this year, to 7 per cent from 11 per cent.

The three-month domestic money-market rate has fallen by nearly 50 per cent in the past year to 4.5 per cent after hitting a high last December of 21.6 per cent during turmoil within the ERM.

Mr Lund concedes that last autumn was a low point for the banks. "We had tremendous losses, turmoil in the currency and stock markets and the collapse of UNI Storebrand [Norway's highest insurer] and Investa [the Bergen-based investment group]."

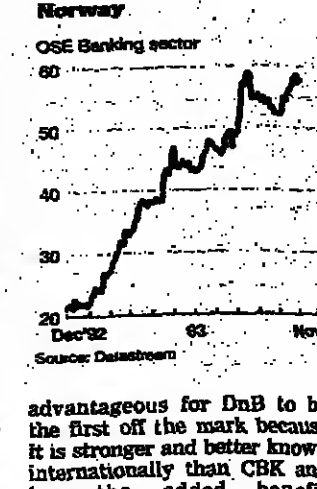
However, the banks' operating environment has since brightened. Inflation is at 2.3 per cent, its lowest level in three decades, and economic growth is forecast to accelerate to 3.0 per cent next year from 1.3 per cent in 1993.

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The two banks' planned share issues will have to be co-ordinated carefully so as not to destroy the market. And there is the matter of what the state intends to do with its shareholdings in the banks and its rights to convert preference capital to shares.

Analysts have forecast that DnB would try to raise up to Nkr2bn in one issue but that CBK would make an initial issue and seek a listing in an attempt to improve the bank's market valuation before a second tranche is launched.

CBK earlier this year said it intended to launch a public offering before 1994 but Mr Lund says DnB will have to first publish 1993 accounts and, preferably, have first-quarter results behind it before making a similar move.

DnB wants to expand the bank's foreign ownership quota to 33.3 per cent from 12.5 per cent.

Domestic and foreign analysts believe it advantageous for DnB to be the first off the mark because it is stronger and better known internationally than CBK and has the added benefit of a listing on the Oslo bourse.

DnB's A-shares have increased five-fold to about Nkr20 each since the end of 1992 as the Oslo house bank sub-index soared by 180 per cent during the same period.

At current share prices the state's DnB stake is worth about Nkr3.5bn, excluding preference capital which, if converted to 350m shares at the bank's current share price, would be worth about Nkr7bn.

The state's shareholding in Den norske Bank thus equals about Nkr10.5bn compared to the Nkr6.4bn which it has injected into the bank.

On the other hand, analysts say, if CBK's share issue is a success, the likelihood of DnB achieving good fortune with its issue would be bolstered.

The state holds a 69 per cent stake in DnB which would be increased to above 80 per cent on a fully diluted basis if preference capital was converted to shares.

The state virtually owns CBK, but the 7 per cent held by private investors is traded outside the bourse at about Nkr17 a share.

A sale, even at this price, would net the state a handsome return. It would underline how light has pierced the gloom of Norwegian banking in the past five years.

Philips alters ownership link with Grundig

By Ronald van de Krol
in Amsterdam

PHILIPS, the Dutch electronics group, is to make changes to the structure of ownership at Grundig, the German consumer electronics company in which it has a 31.6 per cent stake.

However, Philips stressed that the move would have no effect on its relations with Grundig, over which it has exercised management control since 1984, nor on the level of its Grundig holding, which will remain at 31.6 per cent. Philips fully consolidates loss-making Grundig in its annual accounts.

The Dutch company said it planned to spend a sum of less than Fl 1m (\$525,000) on buying out three German and Swiss banks which own shares in Grundig Verwaltungen GmbH. This company is the managing partner in another company, Grundig E.M.V. & CO KG, which acts as a corporate control and profit transfer company for Grundig AG.

Hafslund nine-month profits increase 5%

By Karen Fossli

HAFSLUND Nycomed, the Norwegian group best known for its radiology products, yesterday reported a 5 per cent increase in nine-month pre-tax profits to Nkr1.18bn (\$168.6m) from Nkr1.13bn in the same period last year. It was helped by the strength of the US dollar and Japanese yen.

Hafslund said it would reduce costs in the fourth quarter, and channel more resources into research and development and strengthen its marketing network.

Group sales in the first nine months of this year rose by Nkr357m to Nkr4.17bn as operating profit, before research and development costs, slipped by Nkr47m to Nkr1.68bn. R&D costs increased by Nkr67m to Nkr527m. The group posted financial gains of Nkr35m against charges of Nkr138m in the same period last year.

Hafslund lifted net profit in the first nine months of this year by Nkr33m to Nkr330m.

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Hafslund lifted net profit in the first nine months of this year by Nkr33m to Nkr330m.

Atlas Copco buys US group

By Christopher Brown-Humes
in Stockholm

ATLAS Copco, the Swedish industrial components group, has agreed to buy the European standard compressors business of Indresco, the US group.

The purchase, on undisclosed terms, will strengthen Atlas Copco's leading position in the European compressors market and broaden its product range and distribution network.

The operations being acquired are based in Meru in France and are marketed under the names, Creysseasac and Worthington.

They have annual sales of \$50m and about 240 employees. The most important markets are France, Spain, Italy and the UK.

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Arranged by

September 1993

NORTHERN IRELAND AIRPORTS LIMITED

As previously announced, the Department of the Environment for Northern Ireland intends to privatise Belfast International Airport in 1994 and the enabling legislation, an Order in Council, will shortly be laid before Parliament for approval. Preliminary expressions of interest are now being sought from prospective purchasers who wish to pre-qualify.

Belfast International Airport is the fifth largest regional UK airport and the leading airport in the Province. In 1992/93 the Airport served over two million passengers, generated £23 million in turnover and £2.5 million in profits after tax.

A Pre-Qualification Memorandum is now available to interested parties. This provides outline information on the airport. It also sets out the data which the Department of the Environment for Northern Ireland initially requires in order to pre-qualify purchasers.

Pre-Qualification applications should be submitted by 1 December 1993.

Prospective purchasers who pre-qualify will be provided, subject to confidentiality undertakings, with a detailed Information Memorandum to assist them in preparing their tender.

The Pre-Qualification Memorandum is available from the lead advisers to the Department of the Environment for Northern Ireland on the privatisation:

Eileen Walker, Touche Ross & Co
Friary Court, 65 Crutched Friars
London EC3N 2NP
Tel: 071 936 3000

This advertisement is issued by Touche Ross & Co, who are authorised by the Institute of Chartered Accountants in England and Wales to carry on Investment Business.

Mortgage Securities (No. 1) Plc £22,200,000 Class A Mortgage Backed Floating Rate Notes due 2023 In accordance with the provisions of the notes, notice is hereby given that for the interest period 29th October, 1993 to 31st January, 1994 the notes will carry an interest rate of 6.05% per annum. Interest payable on the relevant interest payment date 31st January, 1994 will amount to £1,558.08 per £100,000 note. Agent Bank: Bank of Scotland	Mortgage Securities (No. 1) Plc £20,000,000 Class B Mortgage Backed Floating Rate Notes due 2023 In accordance with the provisions of the notes, notice is hereby given that for the interest period 29th October, 1993 to 31st January, 1994 the notes will carry an interest rate of 6.25% per annum. Interest payable on the relevant interest payment date 31st January, 1994 will amount to £1,808.59 per £100,000 note. Agent Bank: Bank of Scotland
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Residential Property Securities No. 2 PLC

£200,000,000

Mortgage Backed Floating Rate Notes 2015

The rate of interest for the three month period 29th October, 1993 to 31st January, 1994 has been fixed at 6.075 per cent. per annum. Coupon No. 22 will therefore be payable on 31st January, 1994 of £1,364.52 per coupon.

Aggregate interest charging balances of Mortgages redeemed during the previous interest period: £4,383,716.21

Aggregate interest charging balances of Mortgages redeemed during 29th October, 1993 to 31st January, 1994: £195,872.45

The aggregate principal amount of Notes outstanding as at 29th October, 1993: £93,200,000

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For the six months 29th October, 1993 to 29th April, 1994 the Notes will carry an interest rate of 3.5875% per annum with an amount of interest U.S. \$181.37 per U.S. \$100,000 Note and U.S. \$4,534.20 per U.S. \$250,000 Note, payable on 29th April, 1994.
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U.S. \$100,000,000 Floating Rate Notes due 2001

For the interest period 29th October, 1993 to 29th April, 1994 the Notes will carry a fixed interest of 7.5375% per annum, with a Coupon Amount of U.S. \$4,471.01 per U.S. \$250,000 Note. The relevant interest payment date will be 29th April, 1994.

Bankers Trust Company, London Agent Bank

LANDSVIRKJUN

U.S. \$60,000,000 Floating Rate Notes due 2000

In accordance with the provisions of the Notes, notice is hereby given that the Rate of Interest for the period 29th October, 1993 to 29th April, 1994 is 5.25% per annum. Coupon amounts will be US \$265.42 for the US \$10,000 denomination and US \$6,635.42 for the US \$30,000 denomination, and will be payable on 29th April, 1994 against surrender of Coupon No. 17.

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U.S. \$150,000,000 Guaranteed Floating Rate Notes due 2011

In accordance with the Description of the Notes, notice is hereby given that for the Interest Period from October 28, 1993 to January 31, 1994 the Notes will carry an Interest Rate of 5% per annum.

The Interest Amount payable on the relevant Interest Payment Date, January 31, 1994 against coupon N° 31 will be US\$ 130.58 per US\$ 10,000 principal amount of Note and US\$ 3,263.58 per US\$ 250,000 principal amount of Note.

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FT CONFERENCES

AFTER THE RECESSION - WORLD COMMERCIAL AVIATION AT THE CROSSROADS
Dubai, 8, 9 & 10 November
Timed to coincide with the Dubai International Aerospace Exhibition, the conference will examine in depth the political, economic and structural changes which the commercial aviation industry is now facing and which will influence corporate policy and planning in the years ahead. Speakers include: H.H. Sheikh Ahmed Bin Saoud Al Maktoum, President of the Dubai Department of Civil Aviation, Tan Sri Zain Azraqi, Chairman of Malaysia Airlines, Mr Peter Baw, President of KLM Royal Dutch Airlines, Mr Colin Barrington, Airlines Chief Executive, OPA Group plc, and Dr William Farnham, Director, Air Navigation Bureau, International Civil Aviation Organisation.

WORLD ELECTRICITY
London, 18 & 19 November
This year's FT/Power in Europe conference brings together speakers from Europe, the USA, Latin America, South Africa and China to debate how the electricity industry is responding to a more competitive environment. Speakers include: Mr Hassan Arjani, Commissioner of the European Communities; Dr. Ing. Ludwig Stausas, Bayernwerk AG; Professor Jan Polczyk, Polish Grid Company; Dr Mary G Archer, National Energy Foundation; Mr Gianfranco Casati, ENEL SpA and Mr Robert J Saunders, The World Bank.

THE ECONOMICS OF RAIL PRIVATISATION - OPPORTUNITIES FOR THE PRIVATE SECTOR
London, 22 November
This high-level one-day conference will examine the opportunities - and pitfalls - in passenger service franchising, the new leasing market in railway rolling stock and the management of track infrastructure. Speakers include: The Rt Hon Roger Freeman MP, Minister for Public Transport; John Smith QC, Rail Regulation Designate; Roger Salmon, Franchising Director Dejakings and Robert Horton of Railtrack.

THE PETROCHEMICAL INDUSTRY
- Global Prospects Beyond the Recession.
London, 22 & 23 November
The current challenges facing petrochemical producers and the longer term outlook for the industry will be reviewed, with papers on pricing, restructuring, corporate governance and competition issues. Speakers include: Mr Robert G Kennedy, Union Carbide Corporation; Mr Clive H Thompson, ARCO Chemical Europe Inc; Dr Albert D Richards, Great Sulina First; Mr Makoto Takada, Maruch, Inc; Dr Naj Amin Alata, Gulf Organisation for Industrial Consulting; Mr Andrew Reynolds, Applied Market Information Ltd; and Mr Edward A Wilson, Dow Europe SA.

VENTURE FORUM EUROPE '93
London, 28 November - 1 December
Arranged jointly by the Financial Times and Venture Economics, the Forum brings together industry experts from Europe and the USA to discuss the issues and opportunities affecting the European venture capital community. The Forum will include sessions on new approaches to fund raising; buyers; the outlook for technology investing in Europe and future forecasts.

DOING BUSINESS WITH SPAIN
- The Economic Challenges of the New Government.
Madrid, 1 & 2 December
The FT's annual conference, arranged with Expansión and Actualidad Económica, will review the economic, budget and labour policies of the new Spanish Government as well as important questions on Europe's future and the conditions for monetary and political union. The distinguished panel of speakers include: D. Pedro Solbes Mira, the Spanish Minister of Economy & Finance; Prof Dr Oliver Lück, Member of the Board, Deutsche Bundesbank; G. José Antonio Gilman Martínez, the Spanish Minister of Labour & Social Security; and D. Luis Angel Rolo, Governor of the Bank of Spain.

WORLD TELECOMMUNICATIONS
London, 7 & 8 December
The conference debate will focus on the trends changing the shape of the world telecommunications industry, with particular emphasis on regulation and the methods, challenges and obstacles of privatisation. Speakers include: Mr Don Cuckshank, Director General of OFTEL; Mr James H Ouellet, Chairman of the Federal Communications Commission; Mr Marco Gaudet, Conseiller d'Etat, French Ministry of Posts and Telecommunications; Mr Pál Horváth, Director General of the Hungarian Telecommunications Company; and Mr Boud Klok, Chief Executive Officer of Belgacom.

PENSIONS - A Time for Change
London, 7 & 8 December
Following the publication of the Glendon Committee's Report, the conference will discuss key issues of concern to pension fund administrators and their advisers and examine investment strategies in a climate of low inflation. Mr William Hague MP, Department of Social Security will give the opening address and speakers include: Mr Tom Ross, Clay & Partners; Mr Brian Matthews, ESN Pension Management Group; Mr Tim Stevens, Mercury Asset Management Group plc; Mr Ron Spill, Lloyd & General Assurance Society Limited; and Mr Rodney Donnis, Prudential Portfolio Managers Limited.

THE OUTLOOK FOR NATURAL GAS IN THE 1990s AND BEYOND
Vienna, 13 & 14 December
This topical meeting will consider developments in key markets, evaluate supply and demand, and examine the financing of gas projects. Speakers include: Mr Richard C Green, J. UNICOR United Inc; Mr H John Hawshaw, BP Exploration Operating Company Limited; Mr Coddie H Brown, British Gas plc; Mr Horbert Detharding, Winterhall AG; Mr Djamel Morad, Sonatrach and Mr Raza Rostami Sani, National Iranian Gas Company (NIGCO).

All enquiries should be addressed to: Financial Times Conference Organisation, 102-105 Clerkenwell Road, London EC1M 5SA. Tel: 071 814 9770 (24 hour answering service) Telex: 27347 FTCONF G Fax: 071 873 3973/3969

INTERNATIONAL COMPANIES AND FINANCE

Canadian Pacific result shows continuing recovery

By Robert Gibbons in Montreal

CANADIAN Pacific, the transport and resource group, continued its underlying turnaround in the third quarter but the results were dragged down by special charges. The improvement is expected to continue, despite a slow Canadian economy.

The fast-expanding PanCanadian Petroleum, 87 per cent owned, and Purling Coal, a western exporter, made sharply higher contribution in the third quarter and nine months. The rail unit did better in the second and third quarters.

CP Ships, CP Trucks and CP

Hotels improved their performance.

Third-quarter income from continuing operations was C\$1.7m (US\$1.3m), up from C\$1.6m a year earlier, but after special items the overall loss came out at C\$106.5m, or 33 cents, against a loss of C\$205.5m or 64 cents. Revenues were C\$1.7bn, from C\$1.6bn.

The first nine months showed income from continuing operations ahead at C\$180.3m, from C\$85.3m, but after special items the loss was C\$73.1m or 23 cents a share, compared with a deficit of C\$224.3m or 70 cents a share. Revenues were C\$4.8bn, against C\$4.5bn.

The special items included losses on the sale of the Forest Products unit, CP's share of Laidlaw's special charges, partly offset by gains on asset sales. The 1992 result included heavy write-offs for CP Rail's restructuring.

The group recently sold control of Canadian Pacific Forest Products, one of North America's biggest newsprint producers, to reduce its debt and to make its earnings less volatile. Mr William Stinson, chairman, said steps were being taken to reduce losses at the 48 per cent-owned Unilel telecommunications affiliate and a restructuring charge was possible in the fourth quarter.

Compaq launches new products

By Louise Kehoe in San Francisco

COMPAQ Computer yesterday launched an array of new personal computer products and slashed the prices of some of its models by 10 to 23 per cent.

The large number of new models reflects increasing segmentation in the personal computer market, with separate product lines aimed at different distribution channels and types of customers, from individual purchasers to large corporate buyers.

Other PC companies, including Apple and IBM, are following a similar strategy with different "brands" or lines of

products targeted at various segments of the market.

Compaq's new products for business users include high performance desktop PCs based on Intel's latest Pentium microprocessors, with prices starting at \$2,799.

Other new models include energy-saving features that can significantly cut electricity consumption and costs in offices. New ProLine models, with built-in PC networking capabilities start at about \$1,350.

Compaq also stepped up its presence in the rapidly growing consumer PC market with the introduction of 10 new models to its Presario family.

These include models with stereo sound and video capabilities and pre-installed software. Prices start at about \$1,550.

"With the launch of these new PCs for home and business users, Compaq continues to play a key strategic role in the emergence of these two distinct, but equally important PC markets," said Mr John Rose, vice-president and general manager, desktop PC division.

The company, which recently reported a 64 per cent rise in 1993 third-quarter revenues to \$1.75bn and net income more than doubled to \$107m, also said yesterday that its third-quarter sales in Japan had increased by 350 per cent.

Telecoms venture to be reshaped

By Philip Gawth in Johannesburg

SIEMENS, South Africa's Reunert and GEC of the UK are to rationalise their South African telecommunications activities with the aim of strengthening their position in the local market and improving export prospects.

A new company, Siemens Telecommunications, will be created to focus on providing infrastructure.

Telephone Manufacturers of South Africa (TMSA), an existing joint venture between the

three groups, will be restructured and concentrate on making terminals, pay-phones and key systems.

Siemens Telecommunications will be 51 per cent owned by Siemens of Germany, 27.5 per cent by Reunert and 21.5 per cent by GEC. TMSA will be 41 per cent owned by Reunert, 33 per cent by GEC and 26 per cent by Siemens, compared to equal one-third stakes before the deal.

The companies are responding to the prospect of greater competition in the local market after international liberal-

isation of the telecommunications sector and technological developments which have forced rationalisation among equipment suppliers.

The lifting of economic sanctions against South Africa will only enhance competition further, with companies previously prohibited from doing business there, such as Ericsson from Sweden, now free from restrictions.

Siemens Telecommunications will have annual turnover of about R800m (\$190m) while TMSA's sales will be around R400m.

US insurer nets \$417m from TIG stake sale

By Richard Waters in New York

TRANSAMERICA, the San Francisco-based insurer, is close to leaving the property/casualty business with the sale of its remaining 27 per cent stake in TIG Holdings.

Based on yesterday's share price, the sale of 17.5m TIG shares would be worth \$417m. The insurer floated TIG as a separate company on the New York Stock Exchange earlier this year as part of a move to concentrate on life insurance and financial services.

Ahead of the flotation, it was expected to retain a substantial stake in TIG for some time before being able to complete the disposal at a favourable price.

However, a turn in the property/casualty underwriting cycle has led to higher premiums in some parts of the market, bolstering profits in recent months and adding to investors' interest in insurance companies.

TIG, which was floated at 22 1/2 cents a share, was trading at 34 1/2 cents yesterday after the news. "We had indicated at the time [of the flotation] that we had intended to reduce our holding of the common stock as promptly as possible," Transamerica said yesterday.

The insurer has exercised an option under an agreement made at the time of the flotation to sell its remaining shares.

A registration statement for the sale is expected to be filed with the Securities and Exchange Commission within the next two weeks, TIG said.

Transamerica's share price rose 3% on the announcement to 36 1/2 cents.

Edper Enterprises, a key company controlled by the Fette and Edward Brownman interests of Toronto, plans a convertible preferred share issue to be distributed by way of rights, writes Robert Gibbons in Montreal.

Edper Enterprises controls Brascan, a financial services holding company, Hees International Bankcorp, a holding company, and Carena Development, a property group.

Kaiser Aluminum incurs \$21m loss in third quarter

By Laurie Morse in Chicago

KAISER Aluminum of the US posted a net loss of \$21m or 42 cents per share in the third quarter. The company is the latest in a series of US aluminum manufacturers that have reported losses as a result of a worldwide oversupply of the metal.

Kaiser said that historically low aluminum prices and weakness in prices for rolled aluminum used to make aircraft bodies and beverage cans would force a restructuring at its Trantwood plant in Spokane, Washington.

This would result in a fourth-quarter pre-tax charge against earnings of between \$30m and \$40m.

Kaiser's third-quarter loss compares with income of \$3.9m, or 6 cents per share, in the same period a year ago. Third-quarter sales fell to \$428.4m from \$458.5m a year earlier.

Kaiser's customer shipments of primary and fabricated aluminum fell to 148,200 metric

tons in the third quarter, down from 164,700 tons in the third quarter of 1992. Alumina shipments to customers advanced to 576,900 in the quarter, from 469,300 last year.

For the first nine months of the year Kaiser, which is 81 per cent owned by the natural resources company Maxxam, reported a loss of \$57m, or \$1.05 per share, before extraordinary charges.

This compares with profits of \$24.3m, or 42 cents per share for the first nine months of 1992. Sales for the first nine months of 1993 were \$3,172m, down from \$3,172m a year ago.

For the first nine months Maxxam reported a loss of \$68.5m, or \$7.24 per share, excluding special charges, compared with income of \$3m or 32 cents a year earlier.

Alcan Aluminium plans further round of cuts

By Robert Gibbons

ALCAN Aluminium, facing the deepest and longest post-war recession in ingot and fabricated products prices, will become smaller and leaner, warns Mr Jacques Bougie, president and now chief executive.

Alcan's downstream businesses must "demonstrate clear potential" if they are to get further investment, Mr Bougie said in the company's internal magazine.

Mr Bougie suggested that a new round of cuts will focus on Alcan affiliates making end products. Those that do not measure up or lack a sound profitable future will be sold.

The group will concentrate on primary smelting and sheet and fabricated products and is seeking to lower its alumina costs further. It has already introduced cuts at its Irish alumina plant, near Shannon. Alumina is derived from processing bauxite and becomes a white powder and the primary material in aluminium smelting.

Alcan has 49,000 employees worldwide, down from nearly 70,000 nearly a decade ago, it operates more than 20 units making a wide variety of aluminium products, used widely in construction and transportation and including cable. Some periphery units have already been sold.

The company has cut about US\$500m from its cost base, mainly in North America, in its struggle to become a low cost producer, and effective yesterday realigned its main business groups. It recently received a large US consultants' study of its worldwide organisation.



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SKF Interim Statement

SKF Group sales for the period January 1 to September 30, 1993, amounted to SEK 21,521 m (£1,873m) compared with SEK 19,990 m (£1,830m) for the first nine months of 1992. However, adjusted for CTT Tools - which was included in the 1992 sales figure - and the weakening of the Swedish krona, sales declined approximately 7 per cent compared with the corresponding period in 1992. The result includes:

SEK 110m (£9.6m) for future personnel reductions. An extraordinary income of SEK 173m (£15m) from the sale of the Sandvik shares was recorded. The Group reported a loss, after financial income and expenses, of SEK -709m, (£-62m) compared with a loss of SEK -361m (£-35m) in the first nine months of 1992.

Demand in Europe has levelled out and increases were noted in certain markets.

The positive trend which characterized the first half of the year in the U.S. continued.

Demand in markets outside Europe and the U.S. continued to develop positively.

Forecast:

The forecast from the half-year report 1993, that the second half of 1993 will show a better result than the first half, remains unchanged.

For a copy of the 1993 Nine Months Statement please contact:

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For the six months 29th October, 1993 to 29th April, 1994 the Notes will carry an interest rate of 7.02344% per annum with an interest amount of ECU135.07 per ECU10,000 Note and ECU138.76 per ECU1250,000 Note, payable on 29th April, 1994.

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INTERNATIONAL COMPANIES AND FINANCE

Upjohn survival hopes rest on new medicines

The expiry of four drug patents has troubled the US drugs group and brought R&D into sharp focus. Paul Abrahams reports

UPJOHN, America's 12th largest drugs group, has been one of the best-performing US pharmaceuticals stocks this year. Its shares have risen 11 per cent over the past 12 months, compared with an 11 per cent decline by other health and household stocks.

Upjohn's performance is based on the belief that the Kalamazoo-based group has become a takeover candidate. Like other pharmaceutical companies, it is suffering from an increasingly hostile health-care environment that has reduced growth of the US pharmaceutical market to only 3 per cent during the first half of the year.

But Upjohn is in a worse plight than most. Its predicament has been exacerbated by a series of patent expiries in the US, its most important market.

Three of the group's leading drugs have lost their American patents over the past 12 months. Those protecting Ansaad, an anti-arthritis, expired in February. Earlier this month, Xanax, an anti-anxiety drug and Halcion, a sleeping pill, lost their patent protection. Next May, patents for a fourth drug, a diabetes treatment called Micronase, also expire.

Mr Ley Smith, chief operating officer, admitted, last

month that earnings next year would be lower than in 1993. A combination of the patent expiries, new legislation affecting the tax charge for its Puerto Rico manufacturing facilities, and a faster-than-expected increase in the power of bulk purchasers of health will affect the group's bottom line.

The expiries are highly damaging - Xanax is the group's most important drug and accounted for 30 per cent of its American healthcare sales in the first nine months this year.

Brokers Wertheim Schroder estimate the medicine generated 36 per cent of Upjohn's operating income last year. Altogether, generic competition for the four drugs could affect between a quarter and a third of Upjohn's 1993 earnings per share by 1994, estimate the brokers.

Just when the group needed firm leadership, its misfortunes were compounded when chairman Theodore Cooper died of cancer in April. Since he started leading Upjohn in 1987, he had helped increase sales by nearly 50 per cent.

Since Mr Cooper's death the composition of the board has been unsettled. In August vice-chairman Mr Mark Novitch announced his decision to step down. The following month, Mr William Parfitt, another

vice-chairman and member of the Upjohn family, stepped down as an executive director. His departure increased the possibility the family might be willing to sell its substantial stake.

Mr Smith, also acting chairman, insists the company will remain independent and has a strategy to deal with the patent expiries.

"When you register a patent you know when it's going to expire. We've had plenty of time to plan for this," he says.

However, what Mr Smith does not have immediately to hand are new products capable of compensating for the lost sales, which is partly a research and development failure.

"We didn't make enough of the products we had and we missed some good opportunities to license in some subsequently successful medicines," admits Mr Smith.

The top R&D management has been changed and the new team is racing to bring products through the development pipeline. Most promising is Freedox, a treatment for stroke and head injuries. The medicine is in a class of steroids called Lazaroids, discovered by Upjohn and named after the Biblical character Lazarus who was raised from the dead.

Freedox should be registered with the US Food and Drug

Administration for its first indication before the end of the year, says Mr Smith, and could be launched by the middle of next year. Some analysts believe it could generate \$500m annual sales.

Other compounds in development include fluvoxamine, a

Smith is trying to defend Upjohn's off-patent products. "We expect to lose between 40 per cent and 60 per cent of these drug's sales. The question is how fast they erode," he said.

The company has an agreement with Geneva Pharmaceuticals, a subsidiary of Ciba, which will market generic versions of Xanax, Halcion, Micronase and Ansaad. Upjohn will manufacture the product for Geneva, which avoids the group's production facilities standing idle.

Like some other pharmaceutical groups, Upjohn is also trying to expand its over-the-counter (OTC) non-prescription drug business. This will allow it to extend the product life of its medicines, such as the hair-loss treatment Rogaine, by selling them direct to patients without a prescription. The group's OTC business has increased 300 per cent since 1986, but with sales of only \$200m a year the operations do not have critical mass, admits Mr Smith.

"The problem is whether to form an alliance and, if you do, how to keep control, or whether to make an acquisition. We have no presence in Europe, and we need to reinforce the US operations, particularly in the dermatological area," he says.

To minimise the fall in earnings next year Mr Smith is slashing costs. The patent expiries forced Upjohn to cut costs earlier than most other US pharmaceutical groups, and last week it announced its third restructuring package at a cost of \$255m.

By the end of 1994 the group will employ 17,500 people, down from 21,100 at the beginning of 1993.

Upjohn is also cutting its production pharmaceuticals, chemicals and agricultural products manufacturing sites, although Mr Smith refuses to give details. The entire cost-cutting programme should generate annual savings of \$150m by 1996, he says.

Mr Smith insists he will not cut R&D spending, which is running at 18 per cent of turnover - a high figure by industry standards. R&D is the lifeblood of the company, he says.

"We could match 1993 earnings next year by cutting R&D spending, but we just have too many good ideas that are getting too close to fruition," he explains.

Upjohn's management is gambling on the success of its development pipeline, and in particular the Lazaroids. The question is whether they will be as effective at resuscitating Upjohn as stroke victims.

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NEWS IN BRIEF

US defence cuts mean 1,150 jobs go at Raytheon

RAYTHEON, the US electronics group, is to cut 1,150 jobs in Massachusetts, as part of a plan to reduce costs to cope with shrinking US military spending, reports AP-DJ.

The group said the job losses would follow a voluntary retirement programme that has already trimmed the payroll by 800 jobs, 600 of them in Massachusetts.

The combined cuts will bring the company's Massachusetts work force down to 21,050, compared with a peak of 31,100 in 1989.

Raytheon and other military contractors have been forced to retrench as the federal govern-

ment slashed the defence budget in the post-Cold War era.

Among the sites suffering cuts will be Raytheon's Andover plant, which makes the Patriot missile that came to prominence in the Gulf War. It will lose nearly 400 jobs.

Despite the falling defence budget, Raytheon has remained profitable, not only by cutting costs, but also by focusing on other businesses such as energy and environmental services.

Bahamian hotel sold to German group

THE Casino Management Group of Berlin has bought an 81 per cent stake in one of the largest hotels in the Bahamas from the Carnival Corporation of the US for \$66m, writes James Gannett in Kingston.

Carnival Corporation will maintain a minority interest in the 867-room hotel and casino, which will be refurbished by the German company to become an up-market destination for European tourists.

Carnival, which operates Carnival Cruise Lines, began searching for a buyer for the hotel last year, after it recorded a \$33m loss in 1991. The company will use \$25m of the sale price to liquidate debts on the three-year-old hotel.

Petro-Canada continues turnaround

PETRO-Canada, now partially privatised, continued its turnaround in the third quarter helped by strong gas sales and downstream rationalisation, writes Robert Gibbins in Montreal.

Net profit was C\$55m (US\$41.6m), or 22 cents a share, against a loss of \$66m, or 26 cents, including special items. Revenues were \$1.17bn, against \$1.2bn.

Nine months' profit was \$136m, or 51 cents, compared with a loss of \$18m, or 8 cents a share. Revenues were \$3.44bn, against \$3.47bn.

Blockbuster plans 12.6m share sale

BLOCKBUSTER Entertainment of the US plans an underwritten sale of 12.6m shares. Reuter reports.

Blockbuster said it intended to use the proceeds to reduce debt. It added that the shares being offered represent about 5.2 per cent of its outstanding stock.

Placer Dome sharply lower in third quarter

By Robert Gibbins in Montreal

LOWER gold output and lower average prices for gold and copper depressed profits of Placer Dome, the Canadian international mining group, in the third quarter and first nine months of 1993.

Third-quarter profit was US\$13m, or 8 cents a share, down sharply from \$33m, or 14 cents, a year earlier, on revenues of \$229m, against \$261m, including investment income of \$10m, against \$20m.

For the first nine months of the year, profit was \$45m, or 19 cents a share, against \$68m, or 29 cents, on revenues of \$699m, against \$834m. Both periods include special items.

Gold output was 450,000 oz in the third quarter, down from 508,000 oz and in the nine months 1,354,000 oz, a decline 8 per cent from 1,473,000 oz a year earlier.

Cash production cost in the nine months was \$189 per oz, compared with \$192 in the same period last year, while the average realised price of gold in the nine months was \$376 oz, slightly above the average market price.

Gold output declined due to lower grades and a reduced stake in the big Porgera mine in New Guinea and the sale of several mining interests. Eight of Placer's 13 producing mines reduced their cash costs.

KLOOF GOLD MINING COMPANY LIMITED

(Registration No. 64/04482/03)
(Incorporated in the Republic of South Africa)

ANNOUNCEMENT

This follows an announcement, dated 20 October, concerning the interruption of underground operations in the area served by the No. 3 Sub-Vertical Shaft of the Kloof Division of the company.

Rectification of the damage, caused by the fall of pipework in the shaft on 13 October, is proceeding in parallel with assessment thereof. It is therefore not possible to predict when this process will be completed.

Stopping and development teams from the affected area have been deployed elsewhere within the division. The milling rate has been maintained at the planned level of 180 000 tons per month since 13 October. It is expected that the company will be able to report in January 1994 that this rate has been achieved throughout the quarter, which commenced in October 1993, with gold production matching that of the previous two quarters.

Surface accumulations of ore, resulting from previous underground production rates in excess of the milling capacity, will be sufficient to continue supplementing production from elsewhere underground well beyond the end of the December 1993 quarter.

The impact on the financial performance of the company will thus be minimised.

1 November 1993

Johannesburg

A member of the Gold Fields Group

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COMPANY NEWS: UK AND IRELAND

Bass acquires 34% of Prague Breweries

By Philip Rawstone

BASS, the UK's leading brewer, has agreed to acquire a 34 per cent stake in Prague Breweries, the second largest brewer in the Czech Republic, for £25m.

The deal is Bass's first overseas brewing venture since it sold its interest in Lancet, the Belgian brewer, 12 years ago. Mr Ian Prosser, Bass chairman and chief executive, yesterday described the Prague deal as "an important first step" in the group's search for opportunities for international expansion.

It offered good prospects for further development in the Czech market and for increased exports, he said.

The Prague group, which will have net assets of £20m after the deal is completed, plans to invest £50m over the next five years in expanding and modernising its three breweries. It has a 10 per cent share of the Czech beer market which is about a quarter the size of that of the UK.

Prague's sales of £36m last



Stanislav Prochazka, general manager of Prague Breweries

year included a significant contribution from exports, mainly to eastern and central Europe. Bass will introduce Prague's leading premium lager, Staropramen, into the UK and a number of other international markets next year.

The UK brewer will have four seats on the Prague board and a number of senior managers will be seconded to the group.

Cranswick shares drop 32p on warning

A WARNING yesterday from the directors of Cranswick that interim profits would be below their previous expectations sent the company's shares down by 32p to 150p.

Following an "extremely disappointing" performance from the pig rearing activities in the second quarter they expected pre-tax profits for the half year to September 30 to be about £700,000 compared with £963,000 previously.

However, the interim dividend was expected to be held at 2.4p when the results are announced early next month.

The directors blamed the second quarter setback on a "substantial and unforeseen fall in pig prices throughout August and September, compounded by higher feed costs resulting from flooding in the US and a late harvest in the UK."

They pointed out that pig prices had continued to fall in October and would have an impact on that month's profitability.

The group's other activities, grain and feed, "were continuing to trade satisfactorily" with most performing ahead of budget.

Unions agree to staff cuts at Aer Lingus

By Tim Coone in Dublin

AGREEMENT was reached yesterday between management and unions at Aer Lingus, the Irish Republic's troubled state-run airline, on £23m (£19.8m) of payroll cuts being sought by the company, out of a total of £50m in a cost-cutting rescue plan to bring the airline back from the brink of financial disaster.

The agreement accepts 800 job losses from the airline's 5,500 workforce, and "radical" changes to work practices. The deal has still to be approved by the workforce in a secret ballot of union members, but union officials yesterday acknowledged that they would be unable to get better terms from the company.

A clearly relieved Mr Bernie Cahill, the airline's executive chairman, said: "A few months ago there was no future for the airline. Now there is. I believe the rescue plan will work. I have no doubt about that."

Mr Paul O'Sullivan, the negotiating official for Siptu, the trade union representing the bulk of the Aer Lingus workforce, described the negotiations as the toughest he had ever been through in an industrial relations dispute.

He said it was "heartbreaking" to negotiate away 800 jobs and that "the changes being asked of the workforce are enormous, but are necessary to create an airline capable of



The Boeing 767: Aer Lingus has two of these aircraft - currently idle - on lease from GPA

competing in a deregulated market."

The airline was seeking cuts of 1,280 man-years in labour costs, but received acceptances for only 800 voluntary redundancies. Management then argued that only 300 of these could be released, unless there were major changes in work practices. These have now been conceded by the unions.

Still to be negotiated are £14m cuts in labour costs from the airline's aircraft maintenance subsidiary, Team, and £15m in non-labour overheads.

The company said that more rapid progress was now expected in those areas, with the core agreement now settled with staff in the main airline business.

Two obstacles still lie in the path of finally wrapping up the rescue plan, assuming the secret ballot approves the deal.

First, management and unions have agreed to go to arbitration over pay settlements for the coming year - the airline management says no pay award can be made

next year.

Second, a £175m equity injection promised by the government in the event of £50m of cost savings being achieved, is still dependent upon approval by the EC Commission.

Aer Lingus's rivals on the intensely competitive Dublin-London route are waging a lobbying campaign in Brussels to block approval, arguing that the government support would create unfair competition for their operations. Without the £175m support, yesterday's

deal with the unions will come unravelling.

The airline is currently losing about £1.2m a week and last month reported a pre-tax deficit of £190.7m for the year ending March 31 1993 on turnover of £281.7m.

With net debt of £540m at the last financial year-end, gearing was 633 per cent. In the summer, the airline's bank creditors threatened to shut off lines of credit to the airline unless a viable rescue plan was put in place by the autumn.

McInerney Properties cuts loss to £1.77m

McInerney Properties, the Dublin-based housebuilder and property developer which has leisure-related construction developments in Spain and Portugal, reduced pre-tax losses to £1.77m (£1.67m) in the first half of 1993. Losses last time were £1.84m.

The result, on turnover of £12.9m (£11.5m), was struck after exceptional provisions of £753,900 (£950,000).

The Four Seasons resorts in Portugal and Spain reported a good sales performance but incurred losses. Good progress was being made in Germany.

The company said it would incur a further loss in the second half but hoped to return to profit in 1994.

Losses per share amounted to 1.47p (3.31p).

Bolton falls to £142,000 after Langho losses

Pre-tax profits at Bolton Group, the property investor, fell from £202,000 to £142,000 in the year ended April 30.

The result was struck after losses relating to the Langho Nursing Centre, which had been disposed of, the directors said, as it required a disproportionate amount of management time and would not generate the target return required.

Since the year and the decision has also been taken to dispose of certain investment properties, which will result in a reduction in debt of about £5m.

Turnover was £2.46m (£1.83m). Net interest took more at £1.24m (£1.13m) and earnings per share came to 1.6p (2.2p).

NEWS IN BRIEF

BRITANNIA GROUP: Rights issue taken up as to 8.84m shares (77.6 per cent). Figure includes acceptances in respect of 7.39m new ordinary shares, being the renounced entitlements of certain directors and major shareholders (64.8 per cent), which were placed with institutions and two other directors. The balance will be taken up by sub-underwriters.

ENTERPRISE OIL: has received elections for its enhanced scrip dividend alternative in respect of 455.3m existing ordinary shares, representing 95.3 per cent of its issued ordinary share capital. The cash offer has been accepted in respect of 178m existing ordinary, representing 38.6 per cent of elections. The cost of the 1993 special interim will be £2.1m against £45.4m if all shareholders had received the full 9.5p cash dividend. Also, some

£12.6m has been saved in AGT. **HARIS (PHILIP)** has acquired the Birmingham-based occupational health supplies business of Surgicon Reside Group and Surgicon for £632,000 cash, plus stock and debtors at valuation estimated at £350,000. The business makes operating profits of about £100,000 on sales of £1.3m.

KELT ENERGY: As a result of the subscription and open offer Kelt will issue 12.5m new ordinary shares of which CP International Securities will subscribe for 12.14m, representing 14.4 per cent of the company's enlarged share capital. Applications under the open offer were received in respect of 363,154 new ordinary shares. **RUSSELL (ALEXANDER)** has sold its concrete block and concrete block pavior business, Russell Concrete Products, to Marshalls Mono, a subsidiary

of Marshalls, for £2.73m. RCP incurred a pre-tax loss of £452,000 for the year to end-December 1992. The sale was part of Russell's policy of disposing of under-performing assets and reducing borrowings.

SOUTHERN WATER has acquired the ERG Environmental Resource Group for £2.25m. The consideration, in part via the issue of 311,858 new ordinary shares, is subject to adjustment. In 1992 ERG achieved a turnover of £7m, of which a third was derived from outside the UK.

VINTEN GROUP has completed the sale of the UK electro-optics business of its subsidiary, Vinten Electro-Optics Ltd., to Coherent Optics (Europe), an offshoot of Coherent, the US laser and optics company. Consideration is an estimated £996,000, payable in cash.

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LISTS OF the constituent stocks of the FT-SE Actuaries Share Indices series and other FT indices are available at no charge from The Manager, FT Statistics, One Southwark Bridge, London SE1 9HL

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COMMODITIES AND AGRICULTURE

Xerox breakthrough worries silver market

By Kenneth Gooding, Mining Correspondent

SILVER'S BIGGEST market could be threatened in the long term if Xerox Corporation's claim to have developed a silver-free film process is justified, analysts suggested yesterday.

Worries about the Xerox breakthrough forced silver's price in London down by 15 cents a troy ounce, or 3.4 per cent, to \$33.55, by the close yesterday. The sharp movement unceremoniously dented the precious metals market and gold fell to \$382.75, down by \$6.05 an ounce.

Xerox announced its new product, VerdexFilm, at the weekend. It is aimed solely at the graphic arts market and substitutes for the silver-halide films used to make master plates for high-quality photography used in many magazines and newspapers and commercial printing. Xerox said there seemed to be no way yet for the process to be applied to consumer photography.

However, the US group

claimed that in graphic arts applications its patented technology "surpasses traditional silver-halide in quality and costs and addresses a pressing environmental concern" as VerdexFilm did not require any toxic processing chemicals.

Graphic arts used about 1,300 tonnes of silver last year, or one-fifth of the 5,800 tonnes used for photography and about 7 per cent of total silver consumption - 18,300 tonnes in 1992 - according to the Silver Institute, a Washington-based promotional organisation.

"This development could give silver a bad image," said Mr Andy Smith, analyst at Union Bank of Switzerland. He suggested Xerox's announcement could have a depressing impact on sentiment in the silver market in the same way as two other relatively recent revelations - news that Ford had developed a non-platinum catalyst and that some central banks had been selling from their gold hoards - dented other precious metals markets. "These are things that the market said would never happen.

And now some of the conventional wisdom in the silver market is being challenged."

Mr Tony Warwick-Ching of the Commodity Research Unit consultancy group, like Mr Smith, said he spoke without knowing the full details of Xerox's technology or the costs of using it. But if the quality problems usually associated with non-silver film had been overcome, "this could threaten silver in the long term".

Mr Smith said the fall in the silver price towards \$4 an ounce would be a good test of demand in the Middle and Far East where "they take no notice of technological developments". Demand there would probably prevent the price falling much further.

Xerox said it would start commercial deliveries of its new product in the second quarter of 1994. Its process uses selenium, produced mainly as a by-product of electrolytic copper refining. About 30 per cent of the 2,000 tonnes of selenium produced each year goes to the electronic and photocopy industries.

Pakistan's cotton crop may be 15% below target

By Farhan Bokhari in Islamabad

PAKISTAN'S cotton output may be as much as 10 to 15 per cent lower than this year's target of 12m bales because of pest attacks in central Punjab, senior government officials say in their latest assessments.

The new estimates may be a setback to Islamabad's efforts in recovering from last year's large scale damage due to severe floods and a subsequent virus attack. Output fell then to 9m bales from the expected 12m bales.

Mr Zohoor Ahmed, head of Pakistan's leading cotton research station, in Multan, said yesterday: "The cotton crop could be 10m bales."

Recent pest attacks in the Faisalabad division of central Punjab may have damaged as much as 50 per cent of the crop in that area, he added. The final estimates for this year's crop are expected to be made available in the next couple of weeks.

Meanwhile, legislators elected from Pakistan's cotton belt in Southern Punjab are expected to ask the government for special relief if the crop damage is spread over an area which is larger than current estimates.

One member of the newly elected National Assembly - the lower house of parliament - said "I have seen out in the fields a certainly no indication of the bumper crop that we hoped to have. It's a sad story of last year's calamity of floods being followed by this year's viral infection."

Stock prices on Pakistan's largest stock market, the Karachi stock exchange, have risen in recent weeks, partly because of expectations of a large cotton crop and so a cheaper raw material, which would be likely to increase the profitability of textile factories.

But with the latest damage assessments, which may raise cotton prices in the local market, it is not yet clear if the forward movement on textile shares will continue.

However, an official of the Pakistan Central Cotton Committee said the assessments of the damage could be intended to boost prices, which have dropped in recent weeks on reports of a good crop this year. "It is too early yet to discuss the damage, if any, to the crop," he said.

Prices for fresh crop cotton have fallen sharply to 950 rupees a maund (37.32 kg), from about 1,100 rupees a month ago.

Kunal Bose reports on the country's proposals for retaining credibility as a supplier and, below, on moves to let coffee growers sell their crop abroad

India backs sugar re-export plan

THE INDIAN federal government is favourably disposed to a proposal by the Indian Sugar and General Industry Exim Corporation to import raw sugar this season for re-export, after processing, as white sugar.

The corporation has suggested the export-linked import of 250,000 tonnes of raw sugar during the 1993-94 season. India, which re-entered the sugar export market in 1990-91 after a gap of six years, will not have any exportable surplus in the current season.

The initial sugar production forecast for 1993-94 is 11m tonnes, compared with actual production of 10.8m tonnes last season and 13.4m tonnes in 1991-92. In spite of last year's serious setback in production, India could export 411,000 tonnes of sugar as the 1992-93 season opened with very comfortable stocks of over 4.9m tonnes. Indian exports in 1991-92 were 582,000 tonnes, up from 223,000 tonnes in 1990-91.

The exim corporation has also recommended the import of another 550,000 tonnes of raw sugar in the current season to be refined for domestic consumption. These imports would be made on condition that the same amount was exported in the following season, when production is expected to improve.

The Indian Sugar Mills Association has warned the government that if India suspends export in the current season the country will lose the "credibility as a dependable source of supply".

"The new on, now off approach to export has not helped us in the past," an ISMA official said recently. "We have made considerable effort to develop a market for Indian sugar in the neighbouring countries. This we do not want to lose."

Moreover, importing raw sugar for processing into white sugar would enable the Indian industry to utilise capacity which would otherwise remain idle.

In the meantime, the mills association has taken strong exception to a government

Indian sugar production

Million tonnes



Source: C. Chatterjee

Coffee growers to taste foreign trade

By Kunal Bose

IN AN important move toward liberalisation of the marketing of coffee, the Indian federal government is to allow growers to export the commodity independent of the Coffee Board.

Encouraged by the success of its earlier schemes to allow the growers to retain 30 per cent of the crop for marketing within the country, the government has now given in to their demand to participate in the export trade.

According to the new scheme, described as free sale quota (FSQ), growers will keep 30 per cent of the crop for marketing inside and outside the country.

The scheme will, however, become operational only when certain amendments have been made to the Indian Coffee Act.

A SUB-COMMITTEE of the Indian Coffee Board is inquiring into an allegation that Nestlé India, an important presence in the country's coffee market, has diverted a portion of the coffee bought in export auctions into the domestic market, writes Kunal Bose.

While the company maintains that no diversion of coffee meant for export has been made to the domestic market, the sub-committee, which is

unsatisfied with the returns submitted by Nestlé for purchases made at export auctions between October 14 1992 and June 9 1993, thinks there is reason to believe it has been diverting in future export auctions.

The commerce ministry does not, however, favour the idea of keeping Nestlé out of the export auctions. Its main concern is to step up exports as the country heads for a bumper coffee crop in 1993-94.

of 1992. As the Indian Parliament is not in session now and the government wants the scheme to be operational soon, the changes in the Act will be made through an ordinance.

The growers will make over the remaining 70 per cent of the crop to the Coffee Board.

It is now clear that the government will progressively increase the size of FSQ, reducing the marketing role of the board and placing a question mark over the future of many

move to liquidate the buffer stock of 500,000 tonnes of sugar created six months ago. It argues that not only should the buffer be maintained but its size should be expanded whenever there is an opportunity to ensure regularity of export, irrespective of variations in domestic sugar production.

According to ISMA, Indian sugar production will once again be low as the area under cane has not increased. What it finds most disturbing is that the area under cane in Maharashtra, India's most productive cane growing state, has shrunk, while the condition of the crop in the drought affected Maharashtra is far from satisfactory.

Floods have affected the standing crop in Bihar and a few other places.

Total supply of sugar in the current season, which opened with stocks of 3.2m tonnes, will be 14.2m tonnes at most. As domestic consumption will be more than 12m tonnes, compared with 11.9m tonnes last year, the next sugar season is likely to open with disturbingly low stocks.

According to growers' organisations the Coffee Board, in common with other commodity boards, should be concerned with research and development and promotion of the beverage, particularly in India.

In the meantime, growers are confident that they will be able to realise a better unit value from export sales than the board.

In fact, the stagnation in domestic coffee prices has already been broken after the introduction of privately organised auctions.

There is a general sense of relief that a large-scale change in the coffee trade will coincide with an expected bumper coffee harvest of more than 225,000 tonnes in 1993-94, up from 161,500 tonnes last year.

Mr Chris Pack, sugar analyst at C. C. Crampton, another London trade house, said the contract faced a "Catch-22 situation", with volumes unlikely to pick up until the physical trade began to show interest.

"The sugar producers are looking for volume, and until they're in there, there won't be the volume."

Mr J. F. Man, the London trading house, said the downward trend in volume must be causing concern to the LCE. But Ms Angela Minton, sugar researcher with Man, pointed

Oil wavers in run-up to output and demand news

By Robert Gorzine

OIL MARKETS are likely to remain unsettled in the run-up to the release later this week of demand forecasts for consuming countries and publication of official figures on October production levels by members of the Organisation of Petroleum Exporting Countries, analysts said yesterday.

Prices for Brent Blend for December rose to \$16.10 in late London trading yesterday after falling below the psychologically important \$16 a barrel level last Friday.

The weak prices prompted Mr Gholamreza Azadeh, the Iranian oil minister, to suggest at the weekend that Opec, which meets in Vienna later this month, might have to re-examine its production ceiling of 24.5m barrels a day in order to stabilise prices.

But Mr Peter Bogin, of Cambridge Energy Research Associates in Paris, said yesterday that "it would be very difficult for Opec to go below" the current ceiling, which was set in September and which is due to run until the end of March next year.

"Everybody is surprised at how weak prices are, but we

just have to assume that there is too much supply for present demand," he said.

International Energy Agency figures on likely oil demand in the main consuming countries are due out at the end of the week.

"If the IEA cuts its demand forecast again then it will reinforce the bearish market," said Mr Bogin.

Other factors behind the recent price weakness include reduced demand from Asia, especially Japan. Asian buyers are normally the first to take advantage of low crude oil prices, but they are "not leading the way" because of the economic slowdown in important economies, said Mr Vahan Zanyan, a director of the Washington DC-based Petroleum Finance Company.

He also pointed to an overhang of crude oil stocks, sharply increased production from the North Sea, the possibility of Iraq's reaching an agreement with the United Nations which would allow it to resume oil exports and some "minimal" Opec output in excess of the production ceiling as additional factors depressing the markets.

Some unofficial estimates

have placed Opec's October output at more than 24.5m b/d. The Middle East Economic Survey estimates as high, but said they had "severely undermined" market confidence.

Mr Zanyan said Opec may simply have to hope for an early cold spell in the northern hemisphere to prop up prices. "A few weeks of temperatures several degrees below normal in November or early December can have a disproportionate impact on prices."

The flow of crude oil through the Brent pipeline system in the North Sea has been cut to 60 per cent of capacity due to maintenance on a pump. Reuters reports from London.

A Shell/Expro spokesman said the pump on the Cormorant Alpha platform was taken out of service over the weekend.

"Production levels are being maintained using available platform storage," he said. Cormorant Alpha is the hub of the Brent pipeline system through which crude oil from nine other fields passes on its way to the Sullom Voe terminal in the Shetland Islands, where Brent Blend crude is mixed.

WORLD COMMODITIES PRICES

MARKET REPORT

ALUMINIUM prices dropped to fresh eight-year lows on the London Metal Exchange yesterday, tumbling to \$1,037 a tonne at one stage before a short-covering rally took the three-month price back up to \$1,045.2, down \$22 a tonne from Friday's close. Aluminium's collapse depressed sentiment in other metals, particularly COPPER, which sagged back towards six-year lows. However, traders said there was some underlying support near \$1,820 a tonne. NICKEL was lower from the outset and prices subsided below \$4,600. Silver's fall (see story above) dragged down precious metals and GOLD tested

support at \$362 before closing in London \$6.05 a troy ounce down at \$362.75. PLATINUM fell by \$5.15 to \$369.35 an ounce. "Having failed on the upside last week, silver gave us the excuse to take it [gold] down to test lower levels," said one dealer. Another said platinum "has not acted independently for weeks; it is just mirroring movements in gold and silver". COCOA prices clawed back some of their early losses, with the March contract closing at \$264, down 28, in routine trading, after dipping to \$255 following a slump in New York.

Compiled from Reuters

London Markets

SPOT MARKETS

Commodity	Price
Crude oil (per barrel FOB Dec)	15.10
Brent Blend (LME)	16.10
WTI (per barrel)	15.10
WTI (per barrel)	15.10

Oil products

Commodity	Price
Heating oil (per gallon)	1.10
Gas oil (per gallon)	1.10
Heavy fuel oil (per gallon)	1.10
Light fuel oil (per gallon)	1.10

Gold (per troy ounce)

Commodity	Price
Gold (per troy ounce)	362.75
Gold (per troy ounce)	362.75
Gold (per troy ounce)	362.75
Gold (per troy ounce)	362.75

Silver (per troy ounce)

Commodity	Price
Silver (per troy ounce)	369.35
Silver (per troy ounce)	369.35
Silver (per troy ounce)	369.35
Silver (per troy ounce)	369.35

Platinum (per troy ounce)

Commodity	Price
Platinum (per troy ounce)	369.35
Platinum (per troy ounce)	369.35
Platinum (per troy ounce)	369.35
Platinum (per troy ounce)	369.35

Copper (per troy ounce)

Commodity	Price
Copper (per troy ounce)	1.82
Copper (per troy ounce)	1.82
Copper (per troy ounce)	1.82
Copper (per troy ounce)	1.82

Nickel (per troy ounce)

Commodity	Price
Nickel (per troy ounce)	4.60
Nickel (per troy ounce)	4.60
Nickel (per troy ounce)	4.60
Nickel (per troy ounce)	4.60

Cocoa (per troy ounce)

Commodity	Price
Cocoa (per troy ounce)	2.64
Cocoa (per troy ounce)	2.64
Cocoa (per troy ounce)	2.64
Cocoa (per troy ounce)	2.64

Wheat (per bushel)

Commodity	Price
Wheat (per bushel)	1.10
Wheat (per bushel)	1.10
Wheat (per bushel)	1.10
Wheat (per bushel)	1.10

Barley (per bushel)

Commodity	Price
Barley (per bushel)	1.10
Barley (per bushel)	1.10
Barley (per bushel)	1.10
Barley (per bushel)	1.10

Oats (per bushel)

Commodity	Price
Oats (per bushel)	1.10
Oats (per bushel)	1.10
Oats (per bushel)	1.10
Oats (per bushel)	1.10

CRUDE OIL - \$/bbl

Commodity	Price
Crude oil (per barrel)	15.10
Crude oil (per barrel)	15.10
Crude oil (per barrel)	15.10
Crude oil (per barrel)	15.10

COCAOA - \$/cwt

Commodity	Price
Cocoa (per troy ounce)	2.64
Cocoa (per troy ounce)	2.64
Cocoa (per troy ounce)	2.64
Cocoa (per troy ounce)	2.64

COPPER - \$/lb

Commodity	Price
Copper (per troy ounce)	1.82
Copper (per troy ounce)	1.82
Copper (per troy ounce)	1.82
Copper (per troy ounce)	1.82

NICKEL - \$/lb

Commodity	Price
Nickel (per troy ounce)	4.60
Nickel (per troy ounce)	4.60
Nickel (per troy ounce)	4.60
Nickel (per troy ounce)	4.60

PLATINUM - \$/oz

Commodity	Price
Platinum (per troy ounce)	369.35
Platinum (per troy ounce)	369.35
Platinum (per troy ounce)	369.35
Platinum (per troy ounce)	369.35

SILVER - \$/oz

Commodity	Price
Silver (per troy ounce)	369.35
Silver (per troy ounce)	369.35
Silver (per troy ounce)	369.35
Silver (per troy ounce)	369.35

TEA

Commodity	Price
Tea (per cwt)	1.10
Tea (per cwt)	1.10
Tea (per cwt)	1.10
Tea (per cwt)	1.10

WHEAT - \$/bushel

Commodity	Price
Wheat (per bushel)	1.10
Wheat (per bushel)	1.10
Wheat (per bushel)	1.10
Wheat (per bushel)	1.10

BARLEY - \$/bushel

Commodity	Price
Barley (per bushel)	1.10
Barley (per bushel)	1.10
Barley (per bushel)	1.10
Barley (per bushel)	1.10

OATS - \$/bushel

Commodity	Price
Oats (per bushel)	1.10
Oats (per bushel)	1.10
Oats (per bushel)	1.10
Oats (per bushel)	1.10

RYE - \$/bushel

Commodity	Price
Rye (per bushel)	1.10
Rye (per bushel)	1.10
Rye (per bushel)	1.10
Rye (per bushel)	1.10

SPRING WHEAT - \$/bushel

Commodity	Price
Spring wheat (per bushel)	1.10
Spring wheat (per bushel)	1.10
Spring wheat (per bushel)	1.10
Spring wheat (per bushel)	1.10

NEW HAW SUGAR - LCE

Commodity	Price
New haw sugar (per cwt)	10.35
New haw sugar (per cwt)	10.35
New haw sugar (per cwt)	10.35
New haw sugar (per cwt)	10.35

Commodity	Price
New haw sugar (per cwt)	10.35
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Commodity	Price
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Tuesday November 2 1993

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CORPORATE TREASURY MANAGEMENT II

Antonia Sharpe examines foreign exchange risk

ERM upset causes new anxieties

MOST COMPANIES think nothing of paying large premiums year after year to insure their factories or offices even if, so far, they have never burnt to the ground.

Yet many are only just coming round to the idea of paying similar amounts to protect their earnings against events beyond their control, such as volatility in the foreign exchange markets.

European companies were starting to think that currency fluctuations were a thing of the past while the European exchange rate mechanism (ERM) was performing in line with their expectations.

However, the exit of sterling and the lira from the ERM in September 1992 and the virtual collapse of the system in August this year, when some currency bands were widened to 15 per cent, has sent many corporate treasurers back to the drawing board.

"Companies are now worrying more about foreign exchange risk than before the collapse of the ERM," says Mr Albert Maasland, the European head of foreign exchange sales and marketing at Chase Investment Bank in London.

While the ERM was running under its old format, companies were content to use the D-Mark as their main hedging currency against the other leading global trading currencies, since the German currency was effectively the proxy for all the other European currencies.

But after the ERM bands widened, this was no longer the case and companies could not take it for granted that the ERM would provide them with adequate protection. Consequently, they are having to hedge themselves against a far bigger number of currencies.

This has led to a big increase in the trading volume between the leading world currencies and the less active European currencies. For example, trading in the yen against the Belgian franc has increased substantially in the last few

months. The improved volume is actually working in favour of companies, because the greater liquidity in such currency crosses has improved pricing and the execution of larger transactions.

In addition, now that the ERM no longer provides blanket protection against a wide range of currencies, banks have developed various derivative products which are designed to do just that.

Bankers report that volume in derivative products has increased dramatically, because corporate treasurers agree that it is probably more

actively in the emerging markets, especially in Asia. Bankers say there is active two-way business in this area, because companies in the emerging markets are also keen to use derivatives to hedge themselves.

Even companies that only do business in their domestic market are increasingly exposed to fluctuations in the foreign exchange market following the collapse of the ERM.

UK companies were among the first to become aware of the indirect danger to their earnings, shortly after sterling started to fall against other European currencies.

Now that the ERM no longer provides blanket protection against a wide range of currencies, banks have developed derivative products

dangerous to do nothing about a currency exposure than to devise appropriate hedging strategies.

In addition, there is a consensus that the heavy currency-related losses suffered by Allied-Lyons, Shell and Adam and Co, the private bank since taken over by Royal Bank of Scotland, highlighted the inadequate controls at those companies and not that the hedging instruments were at fault.

These derivative products, which tend to be traded more actively over the counter than on the exchanges, can be tailor-made to each company's individual needs. Their main attraction is that they offer companies a cheaper and more efficient way to hedge themselves against several currencies.

One product which is becoming increasingly popular is the "basket" option, which has been used for many years in the equity markets. It has since been developed to provide a lower-cost hedge for multiple currency exposures against one or more "base" currencies.

Such products are also being used by European companies which are trading more

market," says Mr Halpin.

One solution offered to a company in this situation was to undertake a series of foreign exchange deals, whereby it would have short of sterling when the currency was going down and be in a neutral position when sterling was going up.

"By using straightforward financial instruments these companies can create a suitable risk profile," says Mr Halpin.

Some manufacturing companies that export their products neutralise any competitive disadvantages resulting from foreign exchange fluctuations by buying parts for their products in the countries of their principal rivals.

For example, a UK car company is known to buy German gear boxes, one of the most expensive components in a car, so that it can compete on a more equal footing with German car companies both at home and in the export market.

Companies which have been doing business in many countries for decades have not been greatly affected by the turmoil in the ERM, because they have been structured in such a way as to minimise the impact of foreign-exchange movements on their earnings.

For example, BAT Industries, the Anglo-American tobacco and insurance group, has decentralised its operations, to enable most currency transactions to be handled locally.

"BAT tends to be fairly large in the local economies, so we have the ability to take quality decisions locally," says Mr Richard Desmond, the group's corporate treasurer. "As a result, our exposures are not great."

However, BAT also has a centralised "netting" process, so that its foreign subsidiaries can set off any currency exposures which they might have against one another. "We have an information system which lets us know exactly what the general exposures are in the group," says Mr Desmond.

BAT's non-remitted profits are not hedged, since they are kept by the local companies to build up their asset base. However, cashflows to the centre are managed actively by BAT's in-house treasury team of five professionals. BAT uses an average rate to translate foreign exchange earnings, but also uses options strategies to help reduce risk.

Robert Alldis discusses new approaches to commodity risk

Swaps gain popularity with users and producers

COMMODITY SWAPS have been with us for nearly 20 years. But until three years ago, few raw material consumers or producers were actively using swaps to hedge their exposure to changes in commodity prices.

Today, the interest in commodity swaps is rapidly gaining momentum, but there is still some way to go before this interest is turned into widespread use.

The total value of deals done is still small. The International Swaps and Derivatives Association (Isda), in its first analysis of commodity swaps, reckons they were worth, at the end of 1992, in notional principal terms of those outstanding, \$18bn - and of those, only \$3bn were non-energy swaps. But the market for total interest-rate swaps in the same period was far larger - valued at \$3,850bn, with currency swaps worth \$860bn. Still, having come from nothing a few years ago, the growth in use of commodity swaps is significant: they are a useful cost-effective and tailor-made vehicle, for users and producers of raw materials to manage their exposure to price risk of an individual commodity.

In the swap, the commodity consumer normally pays fixed and the producer floating, protecting the latter from any drop in the commodity's price. Usually, only payment streams are exchanged, rather than physical delivery taking place. And as the swap is tailored to the particular commodities

being used/produced, the basis risk of using an imperfect substitute, say for jet fuel, when hedging in the futures market, is eliminated. But this still does not answer the main reason why the rise in the total value of the commodity swap market has happened now.

Price factor: Base metal prices have hit six-year lows in recent months; this has put a limit on downside risk. The cash price for copper currently trades at around \$1,675 a tonne, near its six-year low when it touched \$1,571. And nickel is also at levels not seen since June 1987, when it traded at \$4,451 a tonne (currently,

want to capture contango to lock in at current price levels. ■ Understanding: Corporate treasurers are becoming increasingly familiar with the use of derivatives to manage their interest rate and currency exposures. A survey by Greenwich Associates, a Boston-based business strategy consultancy, found that 52 per cent of European and Middle Eastern institutions in early 1993 were hedging their currency exposure by using forwards of less than one year, and that 39 per cent used non-dollar interest rate futures or exchange-traded options. And, says Mr Per Sekse, vice-president

responsible for commodity derivatives marketing in Europe for Chemical Bank, London, corporate treasurers seem increasingly willing to deal over-the-counter with the investment banks, rather than run their own hedging operations.

The banks can also offer a wide range of tailor-made services and structures, says Keith Murphy, vice-president and head of commodity derivatives at J.P. Morgan, London. "They are looking at very customised products, such as indices or baskets of commodities of the very specific exposures that they have."

The more exotic commodity

swaps have tended to be used by heavy energy users to hedge their fuel costs. Ed Speal, head of commodity transactions at Banque Paribas in New York, says he has done swaps on specific pipelines for natural gas and different grades of fuel oil. Also, by embedding options into the swap, he has been able to make an even more attractive and flexible product. But for widespread use of the complex vehicles for all raw materials, a senior US investment banker says: "The derivatives industry will get there, embedding four or five different risks into the one vehicle. Within the next year or two you will see the 'multi-risk swap'."

But the derivatives business have never been short on innovation. For most corporates, however, the plain vanilla structures remain the rule of thumb. And the majority of commodity swap vehicles tend to be settled against the monthly average price of the raw material. These Asian (or average-rate) products are particularly well suited to commodities.

"If an airline is buying jet fuel every day for a year, it is not worried by the specific price of the fuel on a specific day, but is more concerned by its average price," explains Mr Miller. But in the currency markets, "as I know when agreement is coming in on a particular day, I am worried by the exchange rate on that particular day."

Continued on facing page

The more exotic commodity swaps have tended to be used by heavy energy users to hedge their fuel costs

nickel is trading around \$4,675 a tonne).

With base metal prices so depressed, there is a fair chance that their next move will be up. "If I were a consumer, I would fix prices now as prices are so low. But if something happens, these prices would go higher quicker than you know it - that's why we're seeing such a lot of activity," says Robert Miller, vice-president of commodity risk management at Chase Manhattan Bank in London. And since commodity prices have a habit of being highly volatile (recently felt during the Gulf war), it is good time for raw material consumers who

Debt management

Lower rates bring new problems

UK COMPANIES breathed a huge sigh of relief when interest rates started to come down late last year, but at the time only a few believed that rates would fall as far as they did.

One of the main advantages of a low interest rate environment is that companies have been able to make substantial savings by refinancing old, high-coupon debt with cheaper debt.

Investor demand for long-dated paper has also enabled companies to extend the maturity of their debt profiles. By issuing long-dated bonds and redeeming short-dated debt, many companies have achieved an average life for their debt of more than five years at the lowest interest rates in 20 years.

At the same time, the lack of supply of corporate debt, especially in the UK bond market where demand has been great, has resulted in a dramatic tightening in the spread on such paper. That is, the premium which issuers have to pay above the yield on government bonds.

Many companies have also shifted the balance of their fixed-rate and floating-rate debt in favour of floating-rate debt, in order to make the most of further falls in interest rates.

Although the benefits to companies of lower interest rates cannot be underestimated, the sheer pace of the fall in rates has created a new series of problems for company treasurers to solve.

Companies which find themselves in the most difficult position are those with a high proportion of their debt fixed at a rate well above the current interest rate.

Since they are having to pay more than the market rate to service their debt, this places them at a competitive disadvantage to their rivals who have a far greater proportion of their debt with a floating or market rate. Each time rates fall, the competitive disadvantage becomes greater. "It hurts to admit that you are paying well above the going interest rate for your debt," says a banker at a leading investment bank.

As a result, banks are noticing a rise in demand from companies for derivative products that enable them to cut the cost of servicing their fixed-rate debt, says Mr Paul Ward, director in the fixed-income department at Salomon Brothers in London. The derivative product designed to help companies in this situation is called an "interest-rate swap". Using this structure, the company enters an agreement with a counterparty, usually the derivatives unit of an investment bank, to swap the fixed rate on its debt for a floating rate.

It is likely that the company will end up having to pay a substantial margin above the London interbank offered rate (Libor), because of current market conditions.

However, it will reap the benefit of the swap when Libor falls, because its interest costs will decline accordingly. Had the company decided to stay with fixed-rate debt, its borrowing costs would have remained the same.

Falling interest rates also harm companies which relied on the interest income generated by their cash mountains during the period of high interest rates. "Corporates do not usually buy protection against falling interest rates," says Mr Marco Ferrazzi, senior vice-president at Chase Manhattan Bank in London.

One solution for a company in this situation would be to enter a swap which allows it to end up receiving a fixed rate

on its cash mountain. In return it pays a floating rate to the counterparty. This is effectively the reverse of the swap taken out by a company looking for a solution to its fixed-rate debt problem.

Mr Ferrazzi says that another way that a company can insure itself against falling interest rates is to buy a "floor" or a minimum interest rate, which it will continue to receive on its cash even if rates go below the level specified by the floor.

Alternatively, the company can sell a "cap" or a maximum interest rate against its cash, whereby it gives up any potential returns above the cap, in return for a fee.

Companies also use swaps as an efficient way to adjust the fixed-rate/floating-rate split of their debt portfolio depending on the trend in interest rates.

Mr Arthur Burgess, group treasurer at British Gas, says that British Gas aims to have

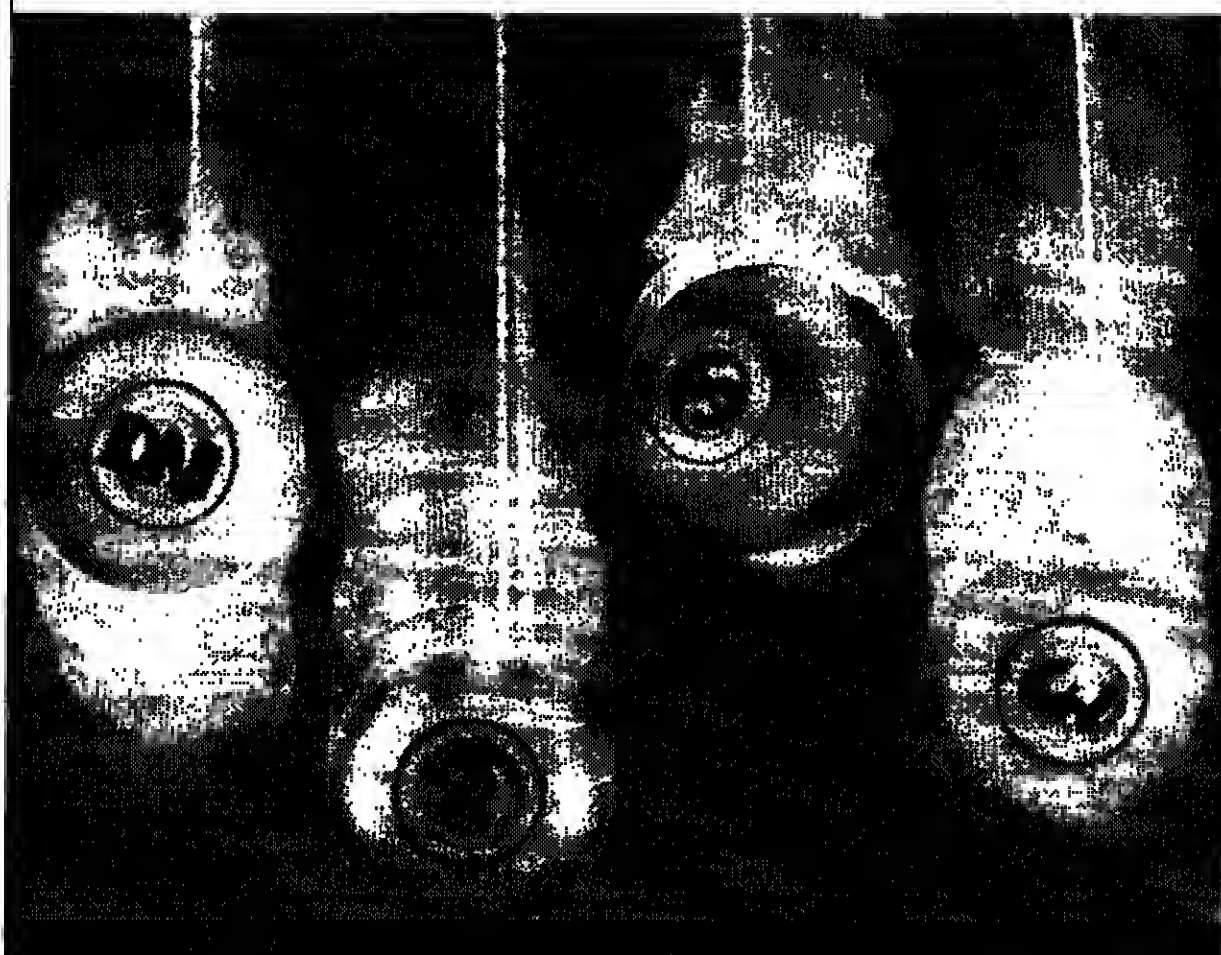
three-quarters of its debt in fixed rate and one-quarter in floating rate, but that the split can vary to half-and-half depending on the company's view on interest rates. "We use the swaps market to switch from fixed to floating," he says.

Derivatives are becoming an increasingly important part of a company's strategy to manage debt. Indeed, a recent court decision in the US has potentially opened the door for directors to be sued for failing to use derivatives to protect their companies against volatility in the financial markets.

The Indiana court of appeals (Brane v Roth) held that the directors of an agricultural co-operative had been negligent in not considering the possibility of hedging their company's grain holdings by using the futures market.

Antonia Sharpe

TREASURY AND CAPITAL MARKETS



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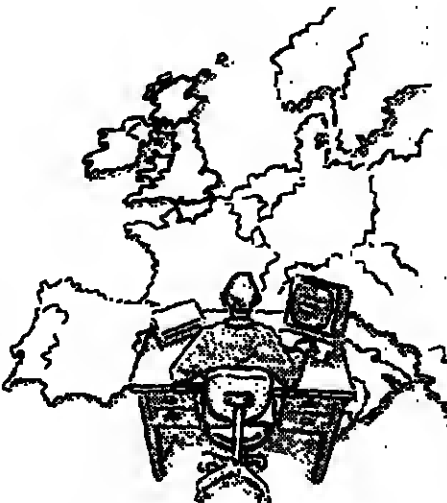
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CORPORATE TREASURY MANAGEMENT III

Commodity swaps

Continued from facing page

ticular day." Average priced swaps account for virtually all the energy swaps Mr Miller does, and around 75 per cent of metal swaps.

Depth and maturity: As the number of banks involved and the amounts of swaps outstanding increase, liquidity in commodity swaps has risen and generally spreads have narrowed. And with higher liquidity in the market, longer-dated vehicles are now being seen.

"Commodity hedges on the exchanges a couple of years ago were only going out three to six months forward. Now, in the OTC market, hedges are extending one, two and three years forward and beyond, which has had a fundamental impact on the forward curve," says Mr Murphy, at J.P. Morgan.

A strong and active domestic futures market is also important for the banks to lay off their own counterparty risk. "A liquid futures market is not essential to structure a commodity hedge. But if we move away from products that don't have a good underlying futures market, then we get into basis risk, and our prices have to reflect this," says Mr Sekse, at Chemical Bank. And if there are options on the future, he/she can buy and sell volatility and do higher own delta hedging without fear of getting squeezed. But even though commodity swaps can provide a relatively cost-effective and flexible method to hedge raw material prices, some corporates are still wary.

For example, Mr Sekse advised photographic film manufacturers on the benefits of hedging the silver price when prices were low. But as soon as prices picked up, they quickly saw the new levels as unsustainable and backed-off the hedge, expecting the next move in prices to be down.

Mr Sekse had more success with frozen orange juice swaps used by fruit juice processing companies. The juice processors locked in at a rate of just under \$1.00 a lb earlier this year, against a price now of around \$1.30 a lb. But some of the manufacturers wanted to take profits, despite having hedged for 1994, believing again the higher price wouldn't be sustained.

A NEW accounting rule that comes into effect in January in the US will require banks and corporate treasurers to take a closer look at securities held in portfolio, and account for them according to the institution's long-term investment intentions.

The rule is expected to shift a large number of debt securities out of the historical amortised cost basis accounting into market value. Many capital-sensitive companies, particularly banks, are already shuffling portfolios in response to the rule, trading off potentially volatile long-dated debt in favour of short-dated securities.

The concern over bond price volatility is considerable, since the Federal Reserve Board in August grudgingly decided to follow up on the accounting rule, known as Federal Accounting Standards Board statement 115, by requiring banks to adjust their equity capital to reflect unrealised gains or losses for securities they hold for sale.

FASB 115 establishes three classes of debt securities. Securities that are to be held to maturity can continue to be reported at amortised cost. However, if the institution believes the security might be

sold under some circumstances - say, to create liquidity to meet seasonal loan demand - the security must be classified as "available for sale," and be valued at the market on a quarterly basis, with unrealised gains and losses affecting the institution's equity position.

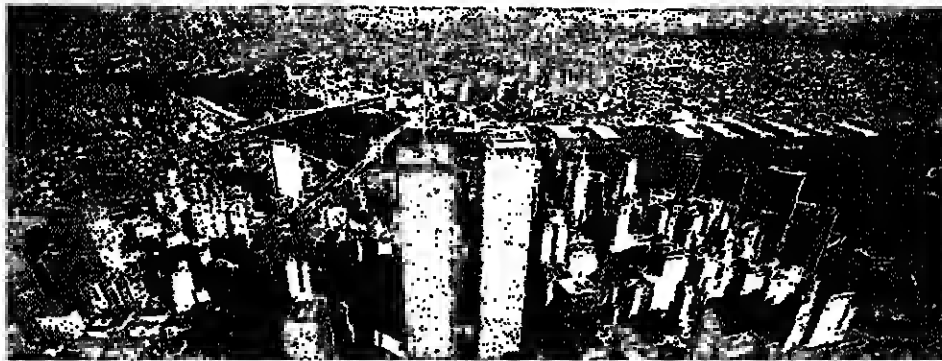
Securities held for trading purposes, the third category, are reported at market, with unrealised gains and losses going straight to the income statement.

Bankers say that many securities traditionally considered as held to maturity will shift to the "available for sale" category, because the rule discourages the sale of a security classified as held for maturity. The rule says transfers between classifications must be rare and unusual, and any transfers must be accounted for as a sale and repurchase at market.

In addition, because FSBE 115 is asymmetrical, and deals only with the asset side of an

New US rules will shake up securities accounting, reports Laurie Morse

Banks may be over-estimating the effect



But what happens when lofty markets come down to earth?

Olyn Geron

institution's balance sheet, a security must be classed as "available for sale" if its price risk is hedged, or if it might be sold to implement an asset-liability management strategy.

A sizeable amount of long-term debt that had been safely amortised under the investment category will soon be subject to the whims of the market, which bank managers say will have near-term and

intermediate effects on capital.

The current environment of low interest rates and rapidly appreciating stocks in the US should benefit a bank's capital position when the initial market valuation occurs. "Almost anyone who's holding a long bond has a profit in it these days," notes one institutional money manager. As a result, few companies are expected to experience immediate equity

mark-downs.

However, the lofty levels of both the US bond and stock markets makes these profitable investments highly vulnerable to a market reversal, and introduces the very real risk of capital volatility.

Bankers fear that depositors and regulators who use capital as a measure of a bank's soundness will misinterpret market-based capital swings. In fact,

even the Fed believes that the rules will force banks to manage their portfolios to avoid dramatic capital shifts, at the expense of profitability or managing interest rate risk.

The belief is well-founded. Bankers, when given the choice, invariably choose capital preservation over higher portfolio returns. A secondary concern for US banks is that a variety of regulatory actions, including the price of bank deposit insurance, is linked to an institution's capitalisation level.

"We're concerned that, by forcing capital to rise and fall, FASB's action could trigger a variety of unnecessary penalties and unwise business decisions," said Mr Donald Ogilvie, executive vice-president of the American Bankers Association.

In fact, the bank lobby could be overestimating the effects of the new accounting rule. Many of the smallest US banks continue to act as traditional bankers - making money by lending

deposits at higher rates than they pay depositors. If lending is the primary business, a bank's securities portfolio can rightly be classed as investment, and held to maturity, and avoid market valuation.

The nation's largest banks will also be prepared for the rule, with many intending to use derivatives to manage market risks and to adjust the maturities in their "held for sale" securities.

However, many managers are shortening debt maturities. Securities with maturities of four years or less can be put in the "held to maturity" category with more confidence than a 30-year bond. In the "available for sale" bucket, a short-dated note is less exposed to a capital shock than a long bond.

One unexpected result of the accounting rule may be to shut traditionally long-term municipal borrowers off from their usual investors, and prevent communities from locking in historically low long-term interest rates.

In communities where local banks are active buyers of municipal debt, the effect of these portfolio shifts could be to force municipalities to issue short-term debt to finance long-term projects.

Simon London explains how liquidity is monitored to ensure cash flow is in good health

In pursuit of yield as recession ends

spent £350m buying-back its own shares.

Ranters' approach also demands close involvement of tax planning in investment decisions. "We are always trying to maximise the after-tax returns to shareholders. Investors measure us in terms of earnings per share, and that is how we judge ourselves," commented Mr Wood.

But good housekeeping and careful planning can only work so far. The search for higher yield almost inevitably involves a greater degree of risk. As many local authorities found out to their cost, deposits placed with the Bank of Credit and Commerce International offered higher returns than those placed with clearing banks for a reason. In the light of the BCCI collapse, many companies have tightened controls and do not place deposits with banks below a certain credit quality.

For Reuters, the threshold is normally set at a credit rating of single-A from one of the big rating agencies. This applies to swaps contracts and exposures other than deposits. Different types of exposure to each institution are added to give an aggregate exposure.

But credit ratings are not the only guide. Many company treasurers have been wary of buying mortgage-backed securities following the financial problems faced by National Home Loans, a prominent issuer. In fact, the credit quality of asset-backed bonds originated by NML and others remained reassuringly stable through such problems. But prices fell as investors edged away from the market.

"It is partly a question of self-protection. It is easier to go to the main board to justify buying plain-vanilla government bonds. None of them are likely to understand mortgage-

backed bonds, and most will react with suspicion," commented the treasurer of one large company.

Another way of chasing additional yield when short-term interest rates are low is to move into longer-maturity instruments. The 100-year bonds issued in the US by companies such as Coca-Cola are the most extreme examples, offering a yield comfortably above the benchmark 30-year US treasury bond.

The danger is that very long-dated instruments tend to be more sensitive to changes in interest rates and expectations of inflation than shorter maturity stocks. Credit risks may be no greater than short-dated paper, but the market risks can be difficult to manage.

The same might be said of investment in foreign currency instruments. Some UK companies prefer to keep cash in ster-

ling - the currency in which shareholders funds are denominated and earnings per share is measured. Others invest in currencies which are a broad match for their spread of underlying business, or which help offset exposures to help smooth earnings per share.

Derivative financial instruments are used to help offset interest-rate or foreign-currency risks. The philosophical view of companies which prefer sterling-only investment, though, is that the cost of hedging eats into additional yield gained from the underlying investment.

Reuters invests mainly in sterling instruments. It aims for a compromise on interest-rate exposures by identifying a core cash position which is likely to be maintained for at least three years and locking into interest rates of around this maturity. Not all of this core cash posi-

tion is held in instruments of three years maturity, but interest-rate swaps are used to lock into rates of around three years. Cash outside the core is likely to fluctuate - with acquisitions, or other corporate needs - and is treated separately.

Companies point out that neither short-term nor long-term interest rates are especially low in real terms, when measured against inflation. A real return on bank deposits of around 4 per cent represents a reasonable real yield by historic standards.

Even so, low nominal interest rates make it difficult for companies to justify holding cash which is unlikely to be channelled into productive investment. Most industrial companies demand a nominal return of at least 15 per cent from investment in new plant and

machinery. Ronnie Hampel, ICI's chief executive, has said that an average return of 20 per cent through the economic cycle will be demanded of new investment in the chemicals business. Set against such stiff targets, holding excess cash can act as a drag on a company's rate of return on capital.

Reuters' decision to implement a share buy-back programme is a symptom of such pressure. Glaxo's decision to pay a higher than expected dividend this year also reflected the growth of its cash pile - from £1.3bn to £1.8bn, despite spending £350m on research and development - and pressure from investment institutions to stem the rising tide.

But Glaxo has no immediate plans to return the bulk of its cash to shareholders. Cash-rich companies, such as GEC, equally show little enthusiasm for making a one-off payment. Like other companies which face an uncertain trading environment, Glaxo argues that cash gives it the flexibility to react to a changing market. On that view, cash always has value above and beyond the yield it is currently earning.

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CORPORATE TREASURY MANAGEMENT IV

Jonathan S. Schwarz discusses tax regimes' imperfections

Following at snail's pace

TAX LAWS follow several steps behind business innovation. While financial institutions have developed and marketed sophisticated and inventive financial instruments, tax systems have adapted at a snail's pace.

Comprehensive tax regimes for foreign exchange gains and losses and financial instruments designed to manage currency and interest rate risks are still in their infancy. As a result, tax authorities and payers alike struggle to adapt existing tax rules to these transactions.

Not only are results obtained unsatisfactory, but the tax consequences of legitimate transactions are often uncertain. On the other hand, tax authorities are uneasy because of potential revenue losses arising out of the use of increasingly sophisticated and complex instruments.

The US has shown the way with tax legislation specifically on foreign currency transactions. The US Tax Reform Act of 1986 and subsequent amendments codified numerous aspects of foreign currency transactions. Regulations are used to clarify certain aspects of the taxation of a number of financial risk-management instruments, such as notional principal contracts including many hedging instruments.

Although London is one of the three key international financial centres, it is only in 1993 that

UK legislation codifying the taxation of financial risk management transactions has appeared. There has thus been pressure on multinational corporate groups to move profitable treasury functions to tax-favoured locations such as the Dublin Docks or Belgian co-ordination centres.

In the UK, tax on foreign-currency gains and losses has until now been taxed under general principles. The traditional distinction between income and capital has caused numerous difficulties in this area. Revenue receipt or expenses are included in computing taxable income, while capital gains or losses on capital assets are determined separately.

Capital gains and losses are not recognised generally for tax purposes until realised. In addition, gains and losses arising in respect of capital instruments are outside the tax system. Transactions that fit together commercially may be awkwardly asymmetrical once tax has been taken into account.

Difficulties in relation to currency gains and losses have long been recognised. In 1989, the Inland Revenue issued a consultative document on the tax treatment of foreign exchange gains and losses. It proposed symmetry in taxing exchange gains and losses on the same basis with respect to timing methods and amounts. It tentatively proposed the abolition of

the distinction between capital and income in respect of foreign-exchange, gains and losses arising in the course of trade.

In March 1991, the Inland Revenue issued a further consultative document on the reform of the tax treatment of currency gains and losses. This formed the basis for measures included in the 1993 Finance Act.

The new law deals primarily with gains and losses on monetary assets and liabilities. Generally, qualifying assets and liabilities are those debts not convertible into equity, contracts to acquire foreign currency and foreign currency contracts. The rules which are contained in more than 50 sections and four schedules to the Act provide that exchange differences on monetary items are to be included in taxable profits on a translation basis. They will fall outside the capital gains regime.

Currency contracts are subject to tax as if the currencies were acquired when the contract is entered into. Fluctuations over the life of the agreement in relation to sterling are taxable or deductible.

Complex transitional rules determine the applicability of the new regime. Given the fact that a number of areas are still to be clarified by regulation and the necessary overlap between these rules and the rules relating to financial instruments, it will be some time before its impact can be fully assessed.

There are few provisions under current UK tax law specifically dealing with financial instruments. The rules have been unco-ordinated and unconfused. Corporate users of financial instruments are faced with different rules for traded futures and options, as opposed to other futures and options for example. Similarly, swaps with UK banks or swap traders are treated differently from any other swaps.

In 1988, the Inland Revenue issued a consultative document on the taxation of financial instruments for managing interest rate risks. The document focused specifically on swaps. Then, current practice tended to discriminate against non-bank entities in the UK swap market. Under the proposals, recurring swap fees would be assimilated to interest. Because swap pay-

ments were assimilated to interest, other rules would apply such as thin capitalisation rules and treaty provisions dealing with interest.

A further consultative document was issued by the Inland Revenue on financial instruments in 1991. The government objectives were to recommend how payments and receipts should be characterised for tax purposes, to include as many instruments as possible that are commonly used for managing interest-rate risk and to provide rules for the timing of recognition of payments and receipts for tax purposes that are consistent with ordinary commercial accounting. Specific anti-avoidance measures to protect the Exchequer were proposed. These proposals are broadly enacted in new draft clauses, released on August 20 this year, and are expected to be included in the next Finance Bill. The draft clauses are designed to dovetail with the new currency regime. It therefore applies to companies, but excludes several entities taxed as companies, such as unit trusts and offshore funds. Special rules are provided

for special taxpayers such as insurance and mutual trading companies.

Taxation may be on a "mark to market" basis. This taxes payments and receipts in each accounting period and changes in the value of the underlying instrument over its life. Alternatively, an accrual basis method may be adopted.

Payments and receipts under all swaps and financial hedging instruments are to be treated as income, and therefore deductible and taxable accordingly.

Most instruments primarily used for currency and interest-rate risk management are covered. They include swaps and other instruments involving periodic payments which are either fixed or determined by reference to the application of an interest rate to a notional principal amount. These include interest-rate caps, collars and floors. There must be at least one receipt or payment determined by a variable interest rate. Single period instruments are also included. These include forward rate agreements, interest-rate futures and options, as well as currency futures and

options. Clearly, the Inland Revenue is suspicious that sophisticated financial instruments may be used to confer unintended tax benefits. As a result, several anti-avoidance provisions are included.

Withholding tax will apply to payments made by UK resident companies to parties in tax haven countries or in territories where there is no interest article in an applicable tax treaty.

It is ironic that, while the tax rules relating to instruments for the management of interest-rate risks have moved towards an accrual based system, the rules relating to the taxation of interest have not. The UK continues to apply the old-fashioned cash basis.

A number of key international issues remain unresolved. Although the UK has opted to treat payments on qualifying financial instruments as interest, it is unclear whether such payments will always be interest for tax treaty purposes. There is a strong body of opinion that the definition of interest for treaty purposes must follow the definitions in specific treaties. Payments under swaps, for example, are often classified as "other income," which commonly escapes taxation under many tax treaties. In some circumstances, they may also be

regarded as "business profits," which escape taxation in the absence of a permanent establishment. This will be of particular importance in relation to those treaties where withholding tax on interest is not strictly eliminated.

In the European Community, the Commission is arguing that the Parent Subsidiary directive be extended to interest payments. The directive eliminates withholding tax on dividends from companies at least 25 per cent owned by a parent in another member state. This would be a step forward, but would only solve the problem for related party transactions. A single market, in financial instruments will not emerge in the EC until withholding tax barriers have been eliminated.

The risks of double taxation, or indeed double non-taxation, as a result of inconsistent categorisation of financial instruments, traps and opportunities arising from differences in timing of recognition of income and deduction and withholding tax problems continue. Transfer pricing will continue to be a crucial issue where centralised treasury functions are carried out for group companies in multiple jurisdictions.

Jonathan S. Schwarz is editor of the *Financial Times World Tax Report* and a partner at Pinner & Co, City solicitors.

Peter Carty on banks' management of balance-sheet risk

Alcos provide an 'engine-room'

BALANCE SHEET risk is now commonly managed by banks and building societies through central committees. Though sometimes known as risk committees, or balance sheet management committees, the popular label is "the asset and management liability committee" - or Alco.

Members represent each part of the balance sheet. The committee will often include the treasurer, the heads of lending and fund acquisition departments, the head of corporate planning and managers from international divisions.

The main function is to maximise earnings through overall management of acquisition and allocation of funds. Strategy is laid down through monitoring asset and liability distributions and maturities, earnings margins and appraisal of liability and loan pricing policies across a bank's portfolio of businesses.

Alcos originated in the 1930s in the US. Growth in financial markets was accompanied by an increase in the range and com-

plexity of financial products available. Risks consequently increased and new ways of taking and avoiding risk mushroomed. Banks realised that top-level management was required, hence the genesis of the Alco.

The committee's remit typically extends to the setting of high-level limits, with board approval, in the key areas of interest-rate risk, currency risk, liquidity risk, equity price risk and settlement risk. In some banks country and industry, portfolio risk is also managed by the committee.

Royal Bank of Scotland set up its Alco last year. "We recognised as a bank that we needed an engine-room to effectively manage the risk that was arising across the bank's business strategies," says Mr Peter Hanlon, head of group asset and liability management. "It was to make sure that everybody put their group hats on, so to speak, rather than their divisional hats." Up to then, the bank had a decentralised approach to risk

management.

As well as ensuring that divisional strategies result in a balance sheet that the group is comfortable with, RBS's Alco also acts as a communication conduit, educating different parts of the group on market and credit risk. The committee meets monthly and deals with high-level decisions. "It's not concerned with housekeeping," says Mr Hanlon.

Price Waterhouse partner, Mr Andrew Stott, is involved in setting up and advising on the running of asset and liability management units and the committees they report to. He estimates that three quarters of British banks and building societies now have an Alco, but doesn't think that this means asset and liability risks are nec-

essarily being properly dealt with. "Just having an Alco doesn't mean that you're effective in managing your balance sheet," he warns.

A particular problem is undue influence of one part of a bank over the Alco. Ideally, the committee should be chaired by the chief executive, but this may not happen in practice. In particular, in smaller banks and building societies asset and liability risk management may be run from the treasury, due to the fact that the expertise required to analyse structural risk is often far more developed in treasury than other areas.

First Consulting recently conducted a survey of the operations of Alcos in 19 British banks and building societies. "There are people who say they

are an Alco - they say they are looking at the whole balance sheet - but actually their conversations in their monthly meetings are predominantly about treasury issues," says First Consulting's Magnus Spence.

Treasuries are commonly geared to short-term structural risk, while the Alco needs to assess risk against a bank's long-term goals. "There could be conflicting risk strategies," says Mr Stott, at Price Waterhouse.

He points out that clashes need not arise if the two functions are clearly separated within a treasury with clear individual objectives, but that this is easier to ensure if personnel are within different divisions.

A key issue for RBS's Alco is liability sourcing. For all banks,

low interest rates have produced outflows from customer accounts. RBS has a policy of moving towards more stable retail deposits, and the Alco aims to provide incentives for the process and speed it up.

The TSB has been running its Alco - known by the less catchy title of "group balance sheet management committee" - for around five years in its current form, and has devised strategies for tackling the same problem.

"You're looking to put on basically more fixed mortgages and more personal loans," explains Mr John Ashenhurst, director of TSB's group balance sheet management unit and secretary of the UK Asset and Liability Association.

One approach is to vary price sensitivity from account to

account, and for interest-rate tiers within accounts. "The old way was that you said that everything was either sensitive or insensitive. What we're saying is that it might be sensitive today, but it may not be tomorrow," says Mr Ashenhurst.

Changes in rates alter structural risk and policy. "If interest rates go up, you will probably have to replace the liabilities so that they won't be exposed," says Mr Ashenhurst. "It's timing and getting it right that is the main issue."

As well as increased marketing of fixed-rate mortgages and personal loans, TSB is hedging the exposure from low-interest rate tiers in customers' accounts by investments in gilts and swaps. Moves by depositors into equities inevitably means that banks are looking to the interbank market for funding. This changes the balance sheet's risk profile, notably for liquidity risk, and presents Alcos with another set of policy decisions.

A battery of instruments are available to banks for redistribution of risk. "Depending on their expectations, they could use interest rate derivatives, for example," explains Andrew Stott.

A key function of the Alco is the co-ordination of competing demands by a bank's different operating units for a share of the balance sheet. Return on capital, adjusted for the various kinds of risk, is a fundamental performance indicator. "You invest your capital in the highest performing business units," explains Peter Hanlon. "It's an incremental approach based on bidding and competing."

An important backdrop to the Alco is the data provided by a balance sheet simulation model. The effects of different capital allocation strategies and of the use of new products can be predicted. Developed in the US, they have been widely purchased by UK banks and building societies. "It gives you a dynamic dimension to your balance sheet," says Mr Hanlon.

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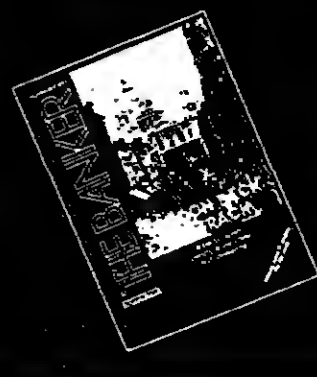
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Chemistry	30	88	30
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Education	30	88	30
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Social Sciences	30	88	30
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Cameroon	218	245	79	160.9	1.9
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Costa Rica	145	747	148	91	924.4
Cote d'Ivoire	871	41	31	34	8.6
Ecuador	2	-2	8	0.7	2.8
El Salvador	84	-1	86	43	48.0
Guatemala	117	113	25	8	8.18
Honduras	147	-7	173	50	915.5
Kenya	177	-5	236	55	769.9
Malawi	177	-7	189	4	16.1
Mali	18	—	11	3.7	—
Morocco	167	-5	192	16	320.1
Nicaragua	99	-1	98	16	8.5
Niger	19	51	61	14	—
Nigeria	115	2	1	1	1.94
Paraguay	17	-1	27	—	—
Peru	463	-8	460	156	1348
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Zambia	8	+2	135	4	2.32

US \$/US	90	+15	30	25	32.3
US \$/£	168	+71	24	122	51.8
US \$/DM	168	—	165	58	23.3

Gold	41	—	71	4	2.8
Platinum	145	—	158	115	27.2
Crude oil	46	27	84	121	4.9
Wheat	70	1	63	16	4.67
Wool	64	—	74	34	5.67
Aluminum	34	—	34	2	1.0
Copper	11	—	12	8	2.03
Lead	16	—	22.4	5	12.3
Steel	104	+49	231	60	15.5
Iron	12	—	57	31	1.8
Gas	91	—	131	8	0.28
Oil	8	—	28.7	7	0.89
Coal	164	—	104	25	77.7
Wheat	40	—	50	2	17.6
Wool	44	—	78.7	27	—
Steel	87	—	54	34	8.6
Oil	2	—	74	60	72.5

* All classifications are shown on the basis of the US dollar.
 ** US dollar is denominated in currencies other than sterling, this is based on intra-day rates.
 *** US dollar is denominated in currencies other than sterling, this is based on intra-day rates.

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Cityline
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International service is available for callers from the UK, annual subscription £250 stg.
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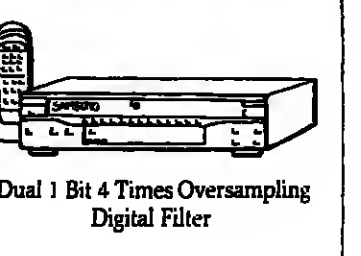
CANADA

Index	Stock	High	Low	Close	Chg	Index	Stock	High	Low	Close	Chg	Index	Stock	High	Low	Close	Chg
TORONTO																	
4 pm close November 1																	
Quotations in cents unless marked S																	
370850	Alcan	51 1/4	13 1/4	13 1/4	+ 1/4	12800	Dynegy	30	29	29	-	8000	Loftco	58 1/4	10 1/4	10 1/4	-
130425	Agrium	30 1/4	15 1/4	15 1/4	+ 1/4	20400	Dorco	100	99	99	-	4100	Loftco	58 1/4	10 1/4	10 1/4	-
456201	Alcan	51 1/4	13 1/4	13 1/4	+ 1/4	25840	Dynegy	30	29	29	-	2680	Loftco	58 1/4	10 1/4	10 1/4	-
167320	Alcan	51 1/4	13 1/4	13 1/4	+ 1/4	108877	Dynegy	30	29	29	-	108877	Dynegy	30	10 1/4	10 1/4	-
2680	Alcan	51 1/4	13 1/4	13 1/4	+ 1/4	5400	Dynegy	30	29	29	-	5400	Dynegy	30	10 1/4	10 1/4	-
254180	Alcan	51 1/4	13 1/4	13 1/4	+ 1/4	30220	Dynegy	30	29	29	-	30220	Dynegy	30	10 1/4	10 1/4	-
311430	Alcan	51 1/4	13 1/4	13 1/4	+ 1/4	104500	Echo	51 1/4	15 1/4	15 1/4	+ 1/4	742500	Macdon	101 1/4	10 1/4	10 1/4	-
314300	Alcan	51 1/4	13 1/4	13 1/4	+ 1/4	108877	Dynegy	30	29	29	-	8000	Loftco	58 1/4	10 1/4	10 1/4	-
699480	Bell	51 1/4	13 1/4	13 1/4	+ 1/4	20400	Dorco	100	99	99	-	4100	Loftco	58 1/4	10 1/4	10 1/4	-
130425	Agrium	30 1/4	15 1/4	15 1/4	+ 1/4	25840	Dynegy	30	29	29	-	2680	Loftco	58 1/4	10 1/4	10 1/4	-
456201	Alcan	51 1/4	13 1/4	13 1/4	+ 1/4	108877	Dynegy	30	29	29	-	108877	Dynegy	30	10 1/4	10 1/4	-
167320	Alcan	51 1/4	13 1/4	13 1/4	+ 1/4	5400	Dynegy	30	29	29	-	5400	Dynegy	30	10 1/4	10 1/4	-
2680	Alcan	51 1/4	13 1/4	13 1/4	+ 1/4	30220	Dynegy	30	29	29	-	30220	Dynegy	30	10 1/4	10 1/4	-
254180	Alcan	51 1/4	13 1/4	13 1/4	+ 1/4	104500	Echo	51 1/4	15 1/4	15 1/4	+ 1/4	742500	Macdon	101 1/4	10 1/4	10 1/4	-
311430	Alcan	51 1/4	13 1/4	13 1/4	+ 1/4	108877	Dynegy	30	29	29	-	8000	Loftco	58 1/4	10 1/4	10 1/4	-
314300	Alcan	51 1/4	13 1/4	13 1/4	+ 1/4	20400	Dorco	100	99	99	-	4100	Loftco	58 1/4	10 1/4	10 1/4	-
699480	Bell	51 1/4	13 1/4	13 1/4	+ 1/4	25840	Dynegy	30	29	29	-	2680	Loftco	58 1/4	10 1/4	10 1/4	-
130425	Agrium	30 1/4	15 1/4	15 1/4	+ 1/4	108877	Dynegy	30	29	29	-	108877	Dynegy	30	10 1/4	10 1/4	-
456201	Alcan	51 1/4	13 1/4	13 1/4	+ 1/4	5400	Dynegy	30	29	29	-	5400	Dynegy	30	10 1/4	10 1/4	-
167320	Alcan	51 1/4	13 1/4	13 1/4	+ 1/4	30220	Dynegy	30	29	29	-	30220	Dynegy	30	10 1/4	10 1/4	-
2680	Alcan	51 1/4	13 1/4	13 1/4	+ 1/4	104500	Echo	51 1/4	15 1/4	15 1/4	+ 1/4	742500	Macdon	101 1/4	10 1/4	10 1/4	-
254180	Alcan	51 1/4	13 1/4	13 1/4	+ 1/4	108877	Dynegy	30	29	29	-	8000	Loftco	58 1/4	10 1/4	10 1/4	-
311430	Alcan	51 1/4	13 1/4	13 1/4	+ 1/4	20400	Dorco	100	99	99	-	4100	Loftco	58 1/4	10 1/4	10 1/4	-
314300	Alcan	51 1/4	13 1/4	13 1/4	+ 1/4	25840	Dynegy	30	29	29	-	2680	Loftco	58 1/4	10 1/4	10 1/4	-
699480	Bell	51 1/4	13 1/4	13 1/4	+ 1/4	108877	Dynegy	30	29	29	-	108877	Dynegy	30	10 1/4	10 1/4	-
130425	Agrium	30 1/4	15 1/4	15 1/4	+ 1/4	5400	Dynegy	30	29	29	-	5400	Dynegy	30	10 1/4	10 1/4	-
456201	Alcan	51 1/4	13 1/4	13 1/4	+ 1/4	30220	Dynegy	30	29	29	-	30220	Dynegy	30	10 1/4	10 1/4	-
167320	Alcan	51 1/4	13 1/4	13 1/4	+ 1/4	104500	Echo	51 1/4	15 1/4	15 1/4	+ 1/4	742500	Macdon	101 1/4	10 1/4	10 1/4	-
2680	Alcan	51 1/4	13 1/4	13 1/4	+ 1/4	108877	Dynegy	30	29	29	-	8000	Loftco	58 1/4	10 1/4	10 1/4	-
254180	Alcan	51 1/4	13 1/4	13 1/4	+ 1/4	20400	Dorco	100	99	99	-	4100	Loftco	58 1/4	10 1/4	10 1/4	-
311430	Alcan	51 1/4	13 1/4	13 1/4	+ 1/4	25840	Dynegy	30	29	29	-	2680	Loftco	58 1/4	10 1/4	10 1/4	-
314300	Alcan	51 1/4	13 1/4	13 1/4	+ 1/4	108877	Dynegy	30	29	29	-	108877	Dynegy	30	10 1/4	10 1/4	-
699480	Bell	51 1/4	13 1/4	13 1/4	+ 1/4	5400	Dynegy	30	29	29	-	5400	Dynegy	30	10 1/4	10 1/4	-
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314300	Alcan	51 1/4	13 1/4	13 1/4	+ 1/4	30220	Dynegy	30	29	29	-	30220	Dynegy	30	10 1/4	10 1/4	-
699480	Bell	51 1/4	13 1/4	13 1/4	+ 1/4	104500	Echo	51 1/4	15 1/4	15 1/4	+ 1/4	742500	Macdon	101 1/4	10 1/4	10 1/4	-
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254180	Alcan	51 1/4	13 1/4	13 1/4	+ 1/4	30220	Dynegy	30	29	29	-	30220	Dynegy	30	10 1/4	10 1/4	-
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2680	Alcan	51 1/4	13 1/4	13 1/4	+ 1/4	30220	Dynegy	30	29	29	-	30220	Dynegy	30	10 1/4	10 1/4	-
254180	Alcan	51 1/4	13 1/4	13 1/4	+ 1/4	104500	Echo	51 1/4	15 1/4	15 1/4	+ 1/4	742500	Macdon	101 1/4	10 1/4	10 1/4	-
311430	Alcan	51 1/4	13 1/4	13 1/4	+ 1/4	108877	Dynegy	30	29	29	-	8000	Loftco	58 1/4	10 1/4	10 1/4	-
314300	Alcan	51 1/4	13 1/4	13 1/4	+ 1/4	20400	Dorco	100	99	99	-	4100	Loftco	58 1/4	10 1/4	10 1/4	-
699480	Bell	51 1/4	13 1/4	13 1/4	+ 1/4	25840	Dynegy	30	29	29	-	2680	Loftco	58 1/4	10 1/4	10 1/4	-
130425	Agrium	30 1/4	15 1/4	15 1/4	+ 1/4	108877	Dynegy	30	29	29	-	108877	D				

NEW YORK STOCK EXCHANGE COMPOSITE PRICES

TECHNOLOGY THAT WORKS FOR LIFE

Samsung Laser Disc Player



Dual 1 Bit 4 Times Oversampling
Digital Filter

SAMSUNG
ELECTRONICS

NYSE COMPOSITE PRICES

[illegible]**NASDAQ NATIONAL MARKET**

NASDAQ NATIONAL MARKET

1 pm close November

Symbol	Price	Change	Volume	High	Low	Open	Close	Net	Net	Symbol	Price	Change	Volume	High	Low	Open	Close	Net	Net
IBM	120.00	+0.25	100	120.25	119.75	120.00	120.25	+0.25	100	IBM	120.00	+0.25	100	120.25	119.75	120.00	120.25	+0.25	100
Microsoft	100.00	+0.50	200	100.50	99.50	100.00	100.50	+0.50	200	Microsoft	100.00	+0.50	200	100.50	99.50	100.00	100.50	+0.50	200
Apple	80.00	+0.25	150	80.25	79.75	80.00	80.25	+0.25	150	Apple	80.00	+0.25	150	80.25	79.75	80.00	80.25	+0.25	150
Oracle	60.00	+0.10	120	60.10	59.90	60.00	60.10	+0.10	120	Oracle	60.00	+0.10	120	60.10	59.90	60.00	60.10	+0.10	120
Amazon	40.00	+0.15	80	40.15	39.85	40.00	40.15	+0.15	80	Amazon	40.00	+0.15	80	40.15	39.85	40.00	40.15	+0.15	80
Google	20.00	+0.05	60	20.05	19.95	20.00	20.05	+0.05	60	Google	20.00	+0.05	60	20.05	19.95	20.00	20.05	+0.05	60
Facebook	15.00	+0.02	40	15.02	14.98	15.00	15.02	+0.02	40	Facebook	15.00	+0.02	40	15.02	14.98	15.00	15.02	+0.02	40
Twitter	10.00	+0.01	30	10.01	9.99	10.00	10.01	+0.01	30	Twitter	10.00	+0.01	30	10.01	9.99	10.00	10.01	+0.01	30
LinkedIn	8.00	+0.01	20	8.01	7.99	8.00	8.01	+0.01	20	LinkedIn	8.00	+0.01	20	8.01	7.99	8.00	8.01	+0.01	20
Slack	6.00	+0.01	15	6.01	5.99	6.00	6.01	+0.01	15	Slack	6.00	+0.01	15	6.01	5.99	6.00	6.01	+0.01	15
Zoom	5.00	+0.01	10	5.01	4.99	5.00	5.01	+0.01	10	Zoom	5.00	+0.01	10	5.01	4.99	5.00	5.01	+0.01	10
Dropbox	4.00	+0.01	8	4.01	3.99	4.00	4.01	+0.01	8	Dropbox	4.00	+0.01	8	4.01	3.99	4.00	4.01	+0.01	8
Evernote	3.00	+0.01	6	3.01	2.99	3.00	3.01	+0.01	6	Evernote	3.00	+0.01	6	3.01	2.99	3.00	3.01	+0.01	6
Box	2.00	+0.01	4	2.01	1.99	2.00	2.01	+0.01	4	Box	2.00	+0.01	4	2.01	1.99	2.00	2.01	+0.01	4
OneDrive	1.50	+0.01	3	1.51	1.49	1.50	1.51	+0.01	3	OneDrive	1.50	+0.01	3	1.51	1.49	1.50	1.51	+0.01	3
SharePoint	1.00	+0.01	2	1.01	0.99	1.00	1.01	+0.01	2	SharePoint	1.00	+0.01	2	1.01	0.99	1.00	1.01	+0.01	2
Teams	0.50	+0.01	1	0.51	0.49	0.50	0.51	+0.01	1	Teams	0.50	+0.01	1	0.51	0.49	0.50	0.51	+0.01	1
Outlook	0.25	+0.01	0.5	0.26	0.24	0.25	0.26	+0.01	0.5	Outlook	0.25	+0.01	0.5	0.26	0.24	0.25	0.26	+0.01	0.5
Word	0.10	+0.01	0.2	0.11	0.09	0.10	0.11	+0.01	0.2	Word	0.10	+0.01	0.2	0.11	0.09	0.10	0.11	+0.01	0.2
Excel	0.05	+0.01	0.1	0.06	0.04	0.05	0.06	+0.01	0.1	Excel	0.05	+0.01	0.1	0.06	0.04	0.05	0.06	+0.01	0.1
PowerPoint	0.02	+0.01	0.05	0.03	0.01	0.02	0.03	+0.01	0.05	PowerPoint	0.02	+0.01	0.05	0.03	0.01	0.02	0.03	+0.01	0.05
Access	0.01	+0.01	0.02	0.02	0.00	0.01	0.02	+0.01	0.02	Access	0.01	+0.01	0.02	0.02	0.00	0.01	0.02	+0.01	0.02
Visio	0.01	+0.01	0.02	0.02	0.00	0.01	0.02	+0.01	0.02	Visio	0.01	+0.01	0.02	0.02	0.00	0.01	0.02	+0.01	0.02
Project	0.01	+0.01	0.02	0.02	0.00	0.01	0.02	+0.01	0.02	Project	0.01	+0.01	0.02	0.02	0.00	0.01	0.02	+0.01	0.02
SharePoint	0.01	+0.01	0.02	0.02	0.00	0.01	0.02	+0.01	0.02	SharePoint	0.01	+0.01	0.02	0.02	0.00	0.01	0.02	+0.01	0.02
Teams	0.01	+0.01	0.02	0.02	0.00	0.01	0.02	+0.01	0.02	Teams	0.01	+0.01	0.02	0.02	0.00	0.01	0.02	+0.01	0.02
Outlook	0.01	+0.01	0.02	0.02	0.00	0.01	0.02	+0.01	0.02	Outlook	0.01	+0.01	0.02	0.02	0.00	0.01	0.02	+0.01	0.02
Word	0.01	+0.01	0.02	0.02	0.00	0.01	0.02	+0.01	0.02	Word	0.01	+0.01	0.02	0.02	0.00	0.01	0.02	+0.01	0.02
Excel	0.01	+0.01	0.02	0.02	0.00	0.01	0.02	+0.01	0.02	Excel	0.01	+0.01	0.02	0.02	0.00	0.01	0.02	+0.01	0.02
PowerPoint	0.01	+0.01	0.02	0.02	0.00	0.01	0.02	+0.01	0.02	PowerPoint	0.01	+0.01	0.02	0.02	0.00	0.01	0.02	+0.01	0.02
Access	0.01	+0.01	0.02	0.02	0.00	0.01	0.02	+0.01	0.02	Access	0.01	+0.01	0.02	0.02	0.00	0.01	0.02	+0.01	0.02
Visio	0.01	+0.01	0.02	0.02	0.00	0.01	0.02	+0.01	0.02	Visio	0.01	+0.01	0.02	0.02	0.00	0.01	0.02	+0.01	0.02
Project	0.01	+0.01	0.02	0.02	0.00	0.01	0.02	+0.01	0.02	Project	0.01	+0.01	0.02	0.02	0.00	0.01	0.02	+0.01	0.02
SharePoint	0.01	+0.01	0.02	0.02	0.00	0.01	0.02	+0.01	0.02	SharePoint	0.01	+0.01	0.02	0.02	0.00	0.01	0.02	+0.01	0.02
Teams	0.01	+0.01	0.02	0.02	0.00	0.01	0.02	+0.01	0.02	Teams	0.01	+0.01	0.02	0.02	0.00	0.01	0.02	+0.01	0.02
Outlook	0.01	+0.01	0.02	0.02	0.00	0.01	0.02	+0.01	0.02	Outlook	0.01	+0.01	0.02	0.02	0.00	0.01	0.02	+0.01	0.02
Word	0.01	+0.01	0.02	0.02	0.00	0.01	0.02	+0.01	0.02	Word	0.01	+0.01	0.02	0.02	0.00	0.01	0.02	+0.01	0.02
Excel	0.01	+0.01	0.02	0.02	0.00	0.01	0.02	+0.01	0.02	Excel	0.01	+0.01	0.02	0.02	0.00	0.01	0.02	+0.01	0.02
PowerPoint	0.01	+0.01	0.02	0.02	0.00	0.01	0.02	+0.01	0.02	PowerPoint	0.01	+0.01	0.02	0.02	0.00	0.01	0.02	+0.01	0.02
Access	0.01	+0.01	0.02	0.02	0.00	0.01	0.02	+0.01	0.02	Access	0.01	+0.01	0.02	0.02	0.00	0.01	0.02	+0.01	0.02
Visio	0.01	+0.01	0.02	0.02	0.00	0.01	0.02	+0.01	0.02	Visio	0.01	+0.01	0.02	0.02	0.00	0.01	0.02	+0.01	0.02
Project	0.01	+0.01	0.02	0.02	0.00	0.01	0.02	+0.01	0.02	Project	0.01	+0.01	0.02	0.02	0.00	0.01	0.02	+0.01	0.02
SharePoint	0.01	+0.01	0.02	0.02	0.00	0.01	0.02	+0.01	0.02	SharePoint	0.01	+0.01	0.02	0.02	0.00	0.01	0.02	+0.01	0.02
Teams	0.01	+0.01	0.02	0.02	0.00	0.01	0.02	+0.01	0.02	Teams	0.01	+0.01	0.02	0.02	0.00	0.01	0.02	+0.01	0.02
Outlook	0.01	+0.01	0.02	0.02	0.00	0.01	0.02	+0.01	0.02	Outlook	0.01	+0.01	0.02	0.02	0.00	0.01	0.02	+0.01	0.02
Word	0.01	+0.01	0.02	0.02	0.00	0.01	0.02	+0.01	0.02	Word	0.01	+0.01	0.02	0.02	0.00	0.01	0.02	+0.01	0.02
Excel	0.01	+0.01	0.02	0.02	0.00	0.01	0.02	+0.01	0.02	Excel	0.01	+0.01	0.02	0.02	0.00	0.01	0.02	+0.01	0.02
PowerPoint	0.01	+0.01	0.02	0.02	0.00	0.01	0.02	+0.01	0.02	PowerPoint	0.01	+0.01	0.02	0.02	0.00	0.01	0.02	+0.01	0.02
Access	0.01	+0.01	0.02	0.02	0.00	0.01	0.02	+0.01	0.02	Access	0.01	+0.01	0.02	0.02	0.00	0.01	0.02	+0.01	0.02
Visio	0.01	+0.01	0.02	0.02	0.00	0.01	0.02	+0.01	0.02	Visio	0.01	+0.01	0.02	0.02	0.00	0.01	0.02	+0.01	0.02
Project	0.01	+0.01	0.02	0.02	0.00	0.01	0.02	+0.01	0.02	Project	0.01	+0.01	0.02	0.02	0.00	0.01	0.02	+0.01	0.02
SharePoint	0.01	+0.01	0.02	0.02	0.00	0.01	0.02	+0.01	0.02	SharePoint	0.01	+0.01	0.02	0.02	0.00	0.01	0.02	+0.01	0.02
Teams	0.01	+0.01	0.02	0.02	0.00	0.01	0.02	+0.01	0.02	Teams	0.01	+0.01	0.02	0.02	0.00	0.01	0.02	+0.01	0.02
Outlook	0.01	+0.01	0.02	0.02	0.00	0.01	0.02	+0.01	0.02	Outlook	0.01	+0.01	0.02	0.02	0.00	0.01	0.02	+0.01	0.02
Word	0.01	+0.01	0.02	0.02	0.00	0.01	0.02	+0.01	0.02	Word	0.01	+0.01	0.02	0.02	0.00	0.01	0.02	+0.01	0.02
Excel	0.01	+0.01	0.02	0.02	0.00	0.01	0.02	+0.01	0.02	Excel	0.01	+0.01	0.02	0.02	0.00	0.01	0.02	+0.01	0.02
PowerPoint	0.01	+0.01	0.02	0.02	0.00	0.01	0.02	+0.01	0.02	PowerPoint	0.01	+0.01	0.02	0.02	0.00	0.01	0.02	+0.01	0.02
Access	0.01	+0.01	0.02	0.02	0.00	0.01	0.02	+0.01	0.02	Access	0.01	+0.01	0.02	0.02	0.00	0.01	0.02	+0.01	0.02
Visio	0.01	+0.01	0.02	0.02	0.00	0.01	0.02	+0.01	0.02	Visio	0.01	+0.01	0.02	0.02	0.00	0.01	0.02	+0.01	0.02
Project	0.01	+0.01	0.02	0.02	0.00	0.01	0.02	+0.01	0.02	Project	0.01	+0.01	0.02	0.02	0.00	0.01	0.02	+0.01	0.02
SharePoint	0.01	+0.01	0.02	0.02	0.00	0.01	0.02	+0.01	0.02	SharePoint	0.01	+0.01	0.02	0.02	0.00	0.01	0.02	+0.01	0.02
Teams	0.01	+0.01	0.02	0.02	0.00	0.01	0.02	+0.01	0.02	Teams	0.01	+0.01	0.02	0.02	0.00	0.01	0.02	+0.01	0.02
Outlook	0.01	+0.01	0.02	0.02	0.00	0.01	0.02	+0.01	0.02	Outlook	0.01	+0.01	0.02	0.02	0.00	0.01	0.02	+0.01	0.02
Word	0.01	+0.01	0.02	0.02	0.00	0.01	0.02	+0.01	0.02	Word	0.01	+0.01	0.02	0.02	0.00	0.01	0.02	+0.01	0.02
Excel	0.01	+0.01	0.02	0.02	0.00	0.01	0.02	+0.01	0.02	Excel	0.01	+0.01	0.02	0.02	0.00	0.01	0.02	+0.01	0.02
PowerPoint	0.01	+0.01	0.02	0.02	0.00	0.01	0.02	+0.01	0.02	PowerPoint	0.01	+0.01	0.02	0.02	0.00	0.01	0.02	+0.01	0.02
Access	0.01	+0.01	0.02	0.02	0.00	0.01	0.02	+0.01	0.02	Access	0.01	+0.01	0.02	0.02	0.00	0.01	0.02	+0.01	0.02
Visio	0.01	+0.01	0.02	0.02	0.00	0.01	0.02	+0.01	0.02	Visio	0.01	+0.01	0.02	0.02	0.00	0.01	0.02	+0.01	0.02
Project	0.01	+0.01	0.02	0.02	0.00	0.01	0.02												

AMEX COMPOSITE PRICES

Stock	P/E	52	High	Low	Close	Change	Stock	P/E	52	High	Low	Close	Change	Stock	P/E	52	High	Low	Close	Change	
Acorn Corp	0.26	54	118	23	94	1/4	Champion	28	533	181	173	181	1/4	Check	10	100	116	106	106	0	
Acton Corp	0.11	83	118	23	94	1/4	Champion	0.01	34	182	173	181	1/4	Chem O&G	0.54	2	533	312	312	312	0
Alpha Int	0.31	111	65	27	19	1/4	Champion	0.30	8	32	125	124	1/4	Chen O&G	0.54	2	533	312	312	312	0
Alpha Int	0.31	111	65	27	19	1/4	Champion	0.30	8	32	125	124	1/4	Chen O&G	0.54	2	533	312	312	312	0
Alpha Int	0.31	111	65	27	19	1/4	Champion	0.30	8	32	125	124	1/4	Chen O&G	0.54	2	533	312	312	312	0
Alpha Int	0.31	111	65	27	19	1/4	Champion	0.30	8	32	125	124	1/4	Chen O&G	0.54	2	533	312	312	312	0
Alpha Int	0.31	111	65	27	19	1/4	Champion	0.30	8	32	125	124	1/4	Chen O&G	0.54	2	533	312	312	312	0
Alpha Int	0.31	111	65	27	19	1/4	Champion	0.30	8	32	125	124	1/4	Chen O&G	0.54	2	533	312	312	312	0
Alpha Int	0.31	111	65	27	19	1/4	Champion	0.30	8	32	125	124	1/4	Chen O&G	0.54	2	533	312	312	312	0
Alpha Int	0.31	111	65	27	19	1/4	Champion	0.30	8	32	125	124	1/4	Chen O&G	0.54	2	533	312	312	312	0
Alpha Int	0.31	111	65	27	19	1/4	Champion	0.30	8	32	125	124	1/4	Chen O&G	0.54	2	533	312	312	312	0
Alpha Int	0.31	111	65	27	19	1/4	Champion	0.30	8	32	125	124	1/4	Chen O&G	0.54	2	533	312	312	312	0
Alpha Int	0.31	111	65	27	19	1/4	Champion	0.30	8	32	125	124	1/4	Chen O&G	0.54	2	533	312	312	312	0
Alpha Int	0.31	111	65	27	19	1/4	Champion	0.30	8	32	125	124	1/4	Chen O&G	0.54	2	533	312	312	312	0
Alpha Int	0.31	111	65	27	19	1/4	Champion	0.30	8	32	125	124	1/4	Chen O&G	0.54	2	533	312	312	312	0
Alpha Int	0.31	111	65	27	19	1/4	Champion	0.30	8	32	125	124	1/4	Chen O&G	0.54	2	533	312	312	312	0
Alpha Int	0.31	111	65	27	19	1/4	Champion	0.30	8	32	125	124	1/4	Chen O&G	0.54	2	533	312	312	312	0
Alpha Int	0.31	111	65	27	19	1/4	Champion	0.30	8	32	125	124	1/4	Chen O&G	0.54	2	533	312	312	312	0
Alpha Int	0.31	111	65	27	19	1/4	Champion	0.30	8	32	125	124	1/4	Chen O&G	0.54	2	533	312	312	312	0
Alpha Int	0.31	111	65	27	19	1/4	Champion	0.30	8	32	125	124	1/4	Chen O&G	0.54	2	533	312	312	312	0
Alpha Int	0.31	111	65	27	19	1/4	Champion	0.30	8	32	125	124	1/4	Chen O&G	0.54	2	533	312	312	312	0
Alpha Int	0.31	111	65	27	19	1/4	Champion	0.30	8	32	125	124	1/4	Chen O&G	0.54	2	533	312	312	312	0
Alpha Int	0.31	111	65	27	19	1/4	Champion	0.30	8	32	125	124	1/4	Chen O&G	0.54	2	533	312	312	312	0
Alpha Int	0.31	111	65	27	19	1/4	Champion	0.30	8	32	125	124	1/4	Chen O&G	0.54	2	533	312	312	312	0
Alpha Int	0.31	111	65	27	19	1/4	Champion	0.30	8	32	125	124	1/4	Chen O&G	0.54	2	533	312	312	312	0
Alpha Int	0.31	111	65	27	19	1/4	Champion	0.30	8	32	125	124	1/4	Chen O&G	0.54	2	533	312	312	312	0
Alpha Int	0.31	111	65	27	19	1/4	Champion	0.30	8	32	125	124	1/4	Chen O&G	0.54	2	533	312	312	312	0
Alpha Int	0.31	111	65	27	19	1/4	Champion	0.30	8	32	125	124	1/4	Chen O&G	0.54	2	533	312	312	312	0
Alpha Int	0.31	111	65	27	19	1/4	Champion	0.30	8	32	125	124	1/4	Chen O&G	0.54	2	533	312	312	312	0
Alpha Int	0.31	111	65	27	19	1/4	Champion	0.30	8	32	125	124	1/4	Chen O&G	0.54	2	533	312	312	312	0
Alpha Int	0.31	111	65	27	19	1/4	Champion	0.30	8	32	125	124	1/4	Chen O&G	0.54	2	533	312	312	312	0
Alpha Int	0.31	111	65	27	19	1/4	Champion	0.30	8	32	125	124	1/4	Chen O&G	0.54	2	533	312	312	312	0
Alpha Int	0.31	111	65	27	19	1/4	Champion	0.30	8	32	125	124	1/4	Chen O&G	0.54	2	533	312	312	312	0
Alpha Int	0.31	111	65	27	19	1/4	Champion	0.30	8	32	125	124	1/4	Chen O&G	0.54	2	533	312	312	312	0
Alpha Int	0.31	111	65	27	19	1/4	Champion	0.30	8	32	125	124	1/4	Chen O&G	0.54	2	533	312	312	312	0
Alpha Int	0.31	111	65	27	19	1/4	Champion	0.30	8	32	125	124	1/4	Chen O&G	0.54	2	533	312	312	312	0
Alpha Int	0.31	111	65	27	19	1/4	Champion	0.30	8	32	125	124	1/4	Chen O&G	0.54	2	533	312	312	312	0
Alpha Int	0.31	111	65	27	19	1/4	Champion	0.30	8	32	125	124	1/4	Chen O&G	0.54	2	533	312	312	312	0
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AMERICA

Contrasting influences weigh on Dow

Wall Street

US SHARE prices traded in a narrow range on either side of opening values yesterday as the markets struggled with the contrasting influences of good economic news and rising bond yields, writes Patrick Harverson in New York.

At 1 pm, the Dow Jones Industrial Average was down 1.40 at 3,679.19. The more broadly based Standard & Poor's 500 was 0.06 higher at 467.53, while the Amex composite was down 0.46 at 480.92 and the Nasdaq composite, which outperformed broader indices for the second consecutive day, was up 2.08 at 781.29. Trading volume on the New York Stock Exchange was 142m shares by 1 pm, and declines outnumbered advancing stocks by 995 to 501.

Trading got off to a slow start, with investors troubled by early declines in bond prices. Those declines worsened later in the morning when the National Association of Purchasing Management published a stronger-than-expected October report on manufacturing activity. The latest in a string of positive economic data in the report pushed the benchmark 30-year bond down almost three quarters of a point, lifting the yield back above 6 per cent.

The purchasing managers' report, however, was bullish for stocks. The NAPM said that its index of manufacturing activity rose from 49.7 in September to 53.8 in October. Any reading over 50 is seen as evidence that the manufacturing sector is expanding. Strong readings in manufacturing orders and production, and lack of growth in manufacturing prices, were seen as particularly encouraging.

The figures, however, were not bullish enough to provide a sharp lift to equity market sentiment, and amid continued concern that share prices may

be too steeply overvalued, stocks drifted in a narrow range throughout the morning.

Among individual stocks, McDonnell Douglas jumped 3% to 95% in busy trading after the aircraft manufacturer and defence supplier reported net income of \$142m for the third quarter, an impressive turnaround from the \$42m loss incurred in the same period a year ago. The company's earnings were boosted by a one-off tax related gain of \$41m.

Car stocks remained in demand in the wake of strong third quarter earnings reports. Chrysler added 1% at \$57. General Motors 3% to \$48% and Ford 4% at \$62%.

Forestry product stocks, hit late last week by negative comments from a brokerage analyst, rallied strongly. International Paper climbed 1% to \$61%. Georgia-Pacific added 1% at \$98% and Louisiana-Pacific rose 1% to \$33%. Dean Foods rose 1% to \$27% after the company announced that it would be acquiring the Birds Eye vegetable business from Kraft General Foods for about \$140m. Compaq rose 1% to \$88% in busy trading after the computer giant announced further price cuts in its leading products.

Canada

TORONTO was under pressure at midday from further declines in the precious metals sector and the TSE-300 composite index shed 25.56 to 4,229.98 in turnover of C\$266.8m. Declining issues outpaced advances 325 to 285, with 296 stocks unchanged.

SOUTH AFRICA

A FALL in the bullion price to \$364 an ounce led the gold shares index down 55, or 3.1 per cent, to 1,700. In the sector, Kloof shed R3.25 to R39.50. The Industrials index gained 7 at 4,539, while the overall index lost 9 to 3,907.

By John Pitt

The attention of the world's investment community remained firmly fixed on Hong Kong and the Pacific region's other emerging markets last week. But weakness in some of the mature equity markets, including Japan and France, kept the advance in the FT-Actuaries World Index to a minimum.

The enthusiasm for Hong Kong - it is the world's third best performing market in dollar terms so far this year after Malaysia and Finland, according to the FT-Actuaries data - is not shared by everyone. Mr Albert Edwards, global strategist at Kleinwort Benson, supports an overweight position on the Pacific Rim but he argues the case against investment in Hong Kong.

"One of the main arguments used to justify the heavy inflow of money into the Far East is that it is a rapid growth area. We have no quarrel with that view, but what we would point out, however, is that

mature economies such as the US and UK are generating earnings growth that compares favourably with the Far East". He adds that while rapid earnings growth in the west may be unsustainable in the long term, it will drive p/e ratios down to levels which will look favourable compared to the Pacific Rim: "the prospective UK p/e is now actually below that of Hong Kong".

As the emerging markets in the Far East become ever more popular, especially with US investors, a popular game to play at the moment is in identifying those countries which remain ripe for foreign investment. According to one US global strategist, arranging markets by their market capitalisation reveals that the Philippines, Thailand and even Taiwan have some way to move before reaching the level of Hong Kong, which is now bigger than that of Italy.

Japan was one of last week's disappointments, and the market's drift downwards continued yesterday. The listing of

East Japan Railway, which had been expected to drive the Nikkei higher, did the opposite.

The market's drift has caused no surprise for Nomura's strategy team, which advised a cautious approach back in May. While still sympathetic to a bullish appraisal of Japanese equities, Nomura suggests that a lot of the good news has already been priced into shares.

For example, "an imminent package of ¥5,000bn in income tax cuts has been the market gossip for some time, leaving prices vulnerable to disappointment over both timing and size".

Europe's equity markets showed a divergence of performance over the past week, with both France and Italy falling back as domestic worries took hold.

The decline of the French market, says Nikko Europe's Mr Michael Woodcock, was due to the government's resolve to move on a package of austerity measures proposed for Air France, the state-run airline, than concern over the

slow pace of interest rate cuts. Mr Woodcock suggests that the Air France saga - which ended on Friday after a 16-day stoppage of the airline's operations - called into question the government's privatisation programme, given that a number of those companies lined up for sale-off are in need of similar cost-cutting. If the government's resolve broke once, might it not happen again?

The level of European interest rates and the likely scenario for further reductions remain uppermost in investors' minds.

Warnings last week from Mr Hans Tietmeyer, the Bundesbank president, against expecting further interest rate reductions following the surprise 1/2 percentage point cut on October 21 may have dulled some appetites, but others remain unconvinced.

Hoare Govett forecasts a further 50 basis-point cut before the end of the year, probably in December, with a further full percentage point cut in the first half of 1994.

MARKETS IN PERSPECTIVE

	% change in last trading day	% change in last trading day	% change in last trading day	% change in last trading day	% change in last trading day
	1 Year	6 Months	1 Year	6 Months	1 Year
Australia	+0.76	+0.48	+32.07	+33.89	+30.97
Belgium	+0.02	+0.15	+24.71	+24.06	+15.58
Denmark	+0.88	+0.25	+48.41	+37.98	+30.29
Finland	+1.08	+1.20	+122.84	+89.10	+84.17
France	-1.02	+3.35	+28.12	+21.54	+18.31
Germany	+0.18	+0.54	+37.18	+33.68	+31.29
Ireland	+1.05	+0.44	+57.88	+47.98	+30.88
Italy	-1.34	-3.24	+47.16	+36.02	+27.82
Netherlands	+0.32	+0.10	+37.29	+33.65	+31.22
Norway	+1.15	+1.46	+54.34	+41.74	+36.43
Spain	-0.09	+0.72	+40.51	+44.58	+25.62
Sweden	+0.54	+0.75	+81.03	+41.82	+25.22
Switzerland	+1.15	+0.20	+43.70	+31.88	+32.43
UK	-0.83	+4.02	+22.86	+12.89	+12.89
EUROPE	-0.44	+0.34	+33.00	+34.07	+28.91
Australia	+2.97	+7.45	+44.40	+31.40	+29.73
Hong Kong	+7.23	+22.12	+47.89	+68.00	+71.41
Japan	-1.47	+1.31	+27.78	+25.08	+44.08
Malaysia	+3.47	+15.33	+82.39	+73.29	+85.79
New Zealand	+3.05	+12.02	+89.85	+45.52	+89.85
Singapore	-0.28	+0.54	+66.60	+46.51	+44.25
Canada	+2.32	+0.58	+19.32	+19.85	+17.59
USA	+0.51	+1.10	+10.80	+7.05	+10.40
Mexico	-0.98	+0.21	+28.24	+10.68	+12.44
South Africa	+1.37	+0.52	+35.41	+25.82	+47.55
WORLD INDEX	+0.05	+0.26	+22.81	+18.07	+21.88

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ASIA PACIFIC

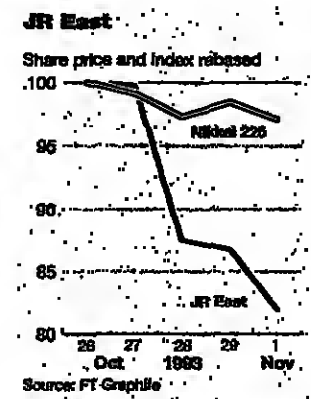
Nikkei loses 1.3% as region continues to set records

Tokyo

PROFIT-TAKING in East Japan Railway dampened sentiment, and the Nikkei average lost 1.3 per cent on arbitrage linked selling, writes Emilio Terazono in Tokyo.

The 225-issue average ended 284.73 off at 19,438.24 after opening at the day's high of 19,666.97 and slipping to a low of 19,375.24 in the afternoon. Volume was a thin 200m shares, against 297.6m. Declines led rises by 594 to 363, with 132 issues unchanged. The Nikkei index of all first section stocks shed 10.84 to 1,619.75, and in London the ISE/Nikkei 50 index eased 3.11 to 1,233.67.

Traders said individual investors and second tier brokers were selling JR East. Meanwhile, much of the downward pressure came from arbitrage selling linked to Nikkei 225 futures. Mr Yasuo Ueki at



Nikko Securities commented: "The market is not going to turn up until JR East rises above its initial trading price of ¥600.00".

JR East receded ¥23,000 to ¥492,000, slipping below the psychological support level of ¥500,000 for the first time since its debut last Tuesday.

Technical analysts hope the Nikkei index will be supported at its 62-week moving average of 19,200. "That is the lowest it is likely to fall in the near term," said a Japanese broker.

Margin buyers sold Sumitomo Metal Mining, which fell ¥30 to ¥836, and NEC, down ¥21 to ¥949. High-technology shares, which gained last week on the rise in the dollar against the yen, declined on profit-taking.

Large-capital issues also eased on profit-taking: Nippon Steel dipped ¥8 to ¥326 and NKK ¥4 to ¥269. Banks were lower as a leading Japanese brokerage house sold Nikkei 300 linked shares: Industrial Bank of Japan lost ¥20 to ¥3,340 and Dai-ichi Kangyo Bank ¥40 to ¥2,360.

Carmakers, on the other hand, firmed on foreign buying. Toyota Motor, the most active issue of the day, rose ¥20 to ¥1,900, while Honda Motor moved ahead ¥20 to

¥1,610. NTT advanced ¥3,000 to ¥834,000 on bargain hunting.

In Osaka, the OSE average declined 110.54 to 21,511.11 in volume of 7.9m shares. Small lot selling was one reason; and railway stocks lost ground in tandem with JR East.

Roundup

FOREIGN buying brought further records to the Pacific Rim. HONG KONG continued to be propelled higher by further strong US and Japanese demand, although the advance slowed towards the end of the session with the emergence of profit-taking. The Hang Seng index ended 300.10, or 3.2 per cent, up at a record 9,539.19, after establishing an all-time intraday high of 9,710.08.

BANGKOK finished its most active trading day ever at another historic high as foreigners continued to pour funds into the market. The composite index rose

65.25, or 5.2 per cent, to 1,326.16 in turnover of B\$28bn, against the previous record of B\$27bn set on October 7.

NEW ZEALAND registered its seventh consecutive advance with the NZSE-40 capital index 35.52, or 1.6 per cent, ahead at 2,199.50 - its highest level since August 1989.

AUSTRALIA climbed to another six-year peak, encouraged by a narrowing in the current account deficit, a 9 per cent jump in exports and a rise in building approvals. The All Ordinaries index added 20.2 to 2,133.4.

SEOUL advanced in brisk trading as buying interest in large-capitalisation export-oriented issues gained momentum. The composite index closed 11.04 higher at 761.76 in turnover of W\$866.32bn.

JAKARTA was firmer in active trading, with both local and foreign investors focusing on banking and property stocks. The official index finished 2.95 ahead at 469.10.

KARACHI saw the KSE 100 index recover 12.14 to 1,540.08, writes Farhan Bokhari. The market had turned lower on profit-taking during the previous two days.

However, after official predictions of a bumper 12m-bale cotton crop this year, there was concern over new estimates from some officials and businessmen who predicted between a 10 and 15 per cent shortfall from the estimated figure due to recent pest attacks in central Punjab.

BOMBAY relinquished further ground as brokers continued to wind down positions ahead of December 1 when new capital adequacy norms will be applied. The BSE index shed 62.46 to 2,621.28.

KUALA LUMPUR was dragged lower by a retreat in Telekom Malaysia. The KLSE composite index dipped 4.94 to 957.05 as Telekom fell 80 cents to M\$20.80.

EUROPE

Volkswagen enlivens Frankfurt's quiet day

HOLIDAYS in several European countries and in three German states reduced bourse activity, writes Our Markets Staff.

FRANKFURT saw volatility in individual stocks although the DAX index slipped 6.89 to 2,062.13, most leading stocks had a very quiet day and turned off from DM9.5bn to DM4.1bn.

The blue chip exception was Volkswagen, up DM4.30 to DM98.30 on the session, and by another DM4.20 to DM402.60 in the post-bourse. Mr Peter Böhme, of Bank Julius Bär in Frankfurt, said that many traders liked to short VW, and had to cover after a major buyer emerged yesterday.

Some smaller stocks shot up on a combination of the thin market and investment buying. Porsche climbed DM51 to DM863, the pharmaceuticals and dietetics group, Altana, by DM34 to DM625 and the paper-maker, PWA by DM6 to DM193.

AMSTERDAM closed at the day's high, with activity remaining concentrated in the options and futures exchanges.

FT-SE Actuaries Share Indices

	November 1 (Partial)	Open	10.30	11.00	12.00	13.00	14.00	15.00	Close
FT-SE Eurotrack 100	1374.03	1374.00	1374.19	1374.08	1373.83	1373.88	1375.07	1375.21	1375.21
FT-SE Eurotrack 200	1440.06	1440.24	1439.79	1439.12	1438.18	1437.82	1438.55	1440.75	1440.75
		Oct 29	Oct 28	Oct 27	Oct 26	Oct 25			
FT-SE Eurotrack 100	1374.03	1374.00	1374.19	1374.08	1373.83	1373.88	1375.07	1375.21	1375.21
FT-SE Eurotrack 200	1440.06	1440.24	1439.79	1439.12	1438.18	1437.82	1438.55	1440.75	1440.75

Base value 1000 (1989) (1989) (1989) (1989) (1989) (1989) (1989) (1989) (1989)

The CBS Trendency index put on 0.6 to 136.5, with a stronger dollar helping to lift sentiment. In a week in which a number of the major companies release interim, Philips, out on Thursday, gained 40 cents to F139.50 and its Polysaran unit F11.20 to F172.30. KLM, also due out on Thursday, added 90 cents to F140.60, picking up some of Friday's losses on fears that the Alcatraz talks might have run into difficulty. Hoare Govett has put out a sell note, forecasting net profit of F106m for the second quarter compared with F154.6 in the same 1989 period.

ZURICH experienced an uncertain session. However,

ing the decision at the week-end to raise the basic rate of VAT from 12 per cent to 15 per cent. Although the move was widely expected, it illustrated the difficulties faced by the government, which is also under pressure because of an increase in Kurdish violence.

ATHENS fell by more than 1.5 per cent on a further round of profit-taking, and disappointment over recent interim results. The general index lost 12.82 to 333.61 in turnover of some Dr2.7bn. TEL AVIV was another market where investors took profits, following its climb to record levels on Sunday. The Mishanim index lost 2.4 to 253.51 in turnover of Shk392m, having risen to 241.21 on Sunday.

Commentators said that the rally had been triggered by a statement from President Hosni Mubarak of Egypt in which he hoped that Israel and Syria would sign a peace agreement by the year end.

Written and edited by William Goddard, John Pitt and Michael Morgan.

FT-ACTUARIES WORLD INDICES

Jointly compiled by The Financial Times Limited, Goldman, Sachs & Co. and NatWest Securities Limited in conjunction with the Institute of Actuaries and the Faculty of Actuaries

	FRIDAY OCTOBER 29 1993	THURSDAY OCTOBER 28 1993	DOLLAR INDEX
	US Dollar Index	US Dollar Index	US Dollar Index
Australia (63)	199.27	199.27	199.27
Austria (17)	180.23	180.23	180.23
Belgium (42)	151.16	151.16	151.16
Canada (107)	133.51	133.51	133.51
Denmark (12)	238.10	238.10	238.10
Finland (23)	125.88	125.88	125.88
France (98)	168.07	168.07	168.07
Germany (80)	134.11	134.11	134.11
Hong Kong (85)	372.86	372.86	372.86
Ireland (14)	174.19	174.19	174.19
Italy (70)	88.92	88.92	88.92
Japan (168)	151.33	151.33	151.33
Malaysia (69)	475.92	475.92	475.92
Netherlands (23)	181.27	181.27	181.27
New Zealand (18)	87.35	87.35	87.35
Norway (23)	184.46	184.46	184.46
Singapore (38)	323.14	323.14	323.14
South Africa (60)	214.53	214.53	214.53
Spain (42)	143.81	143.81	143.81
Sweden (30)	203.54	203.54	203.54
Switzerland (50)	146.93	146.93	146.93
United Kingdom (218)	119.21	119.21	119.21
USA (519)	150.65	150.65	150.65
Europe (750)	161.45	161.45	161.45
Norice (114)	192.80	192.80	192.80
Pacific Basin (713)	158.63	158.63	158.63
East Pacific (1463)	162.28	162.28	162.28
North America (829)	187.08	187.08	187.08
Europe Ex. UK (532)	142.29	142.29	142.29
Pacific Ex. Japan (244)	239.57	239.57	239.57
World Ex. US (1649)	161.00	161.00	161.00
World Ex. UK (1968)	167.81	167.81	167.81
World Ex. So. Af. (2105)	193.87	193.87	193.87
World Ex. Japan (1699)	151.56	151.56	151.56
The World Index (2169)	169.87	169.87	169.87

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